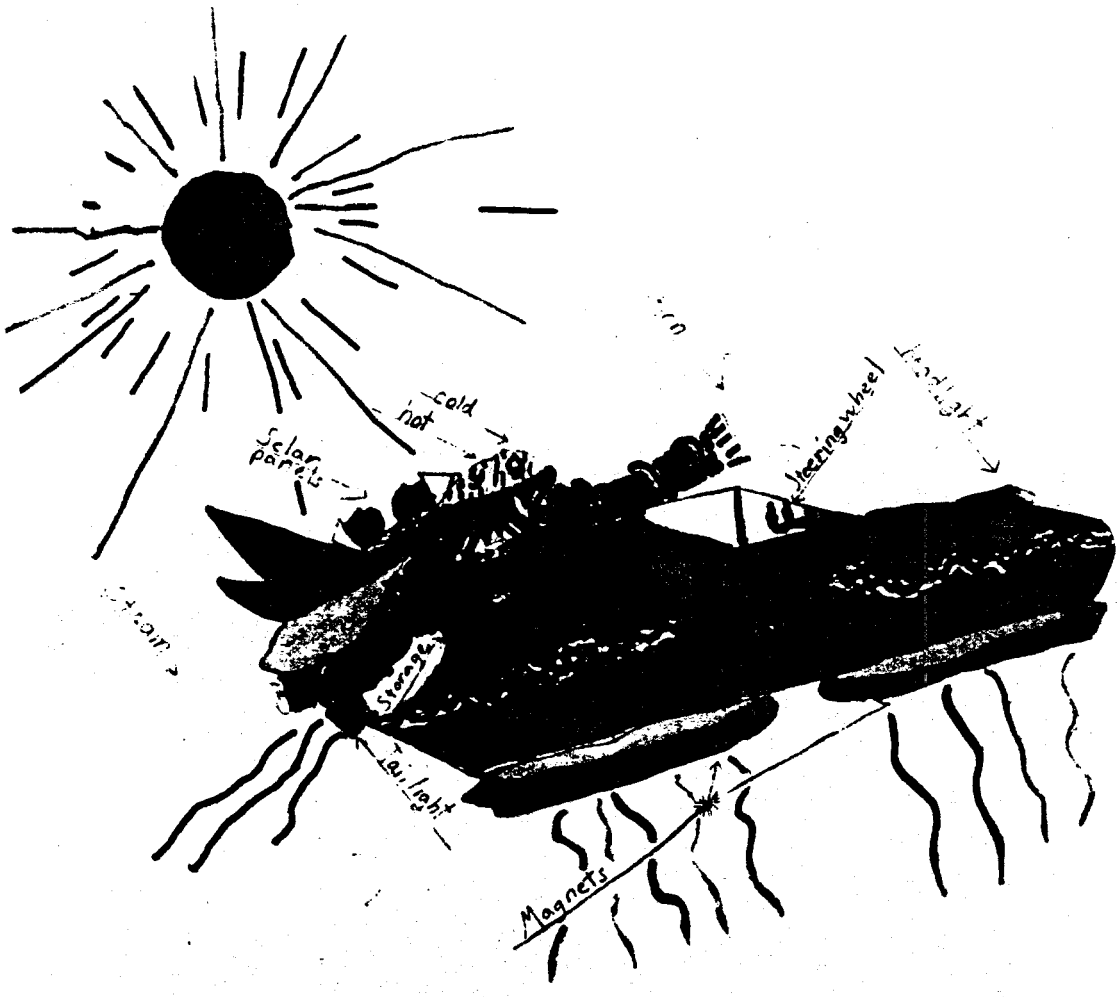


CALIFORNIA ENERGY COMPANY 1989 ANNUAL REPORT

DISCLAIMER

the Contest

Award winning students shown with California Energy Company "Mentors" during field trip to the Coso Geothermal Project.

We believe that each of us has an obligation to future generations of Americans to work towards improving the quality of education across the nation. Throughout this report you will see a reflection of California Energy Company's commitment to this end.

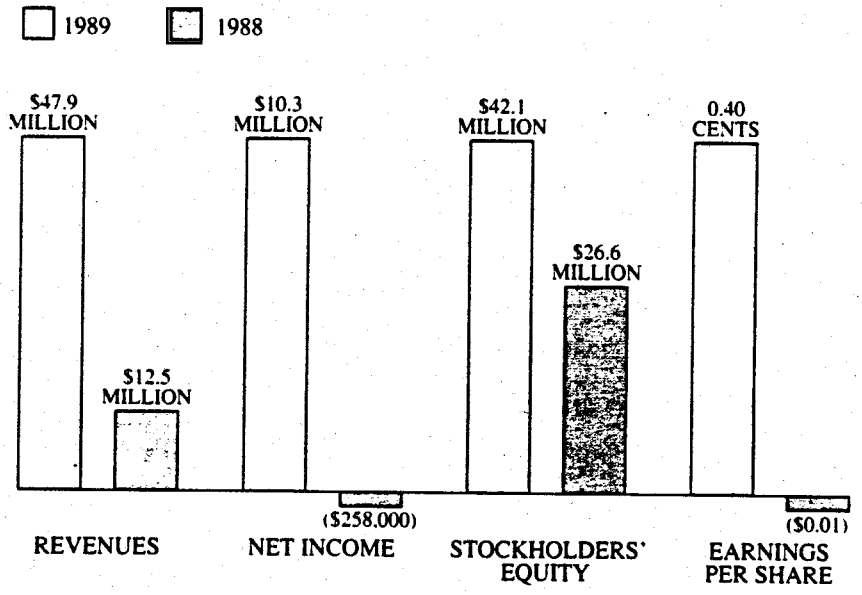
We have instituted a program – E^3 = *Energy. Education. Environment* – that seeks to raise the level of consciousness, particularly among our young people, as to issues related to energy and the environment. Society can no longer afford to address these matters separately because each affects the other and together play an omnipotent role in our social and economic well-being.

One element of this program is California Energy's sponsorship of the contest: *Search for the Ideal Energy Source of the Future*. We asked students grades 3 to 6, in the San Francisco Unified School District to give thought to how energy can be harnessed with a minimum impact on the earth's fragile environment.

As you can see, there are bright, ingenious minds out there. By injecting some incentive, in the form of a financial contribution to their college education fund and some competition, we were able to stimulate some rather creative thinking. With minds like these, perhaps future generations will demonstrate greater wisdom in the stewardship of our precious natural resources.

COVER ARTWORK: CONTEST WINNER
"Solairmag"
Nicholas Turner, 4th Grade
George Washington Carver Elementary School

CALIFORNIA ENERGY COMPANY



1989 HIGHLIGHTS

Successful completion of the $625 million, 240 megawatt Coso Geothermal Project.

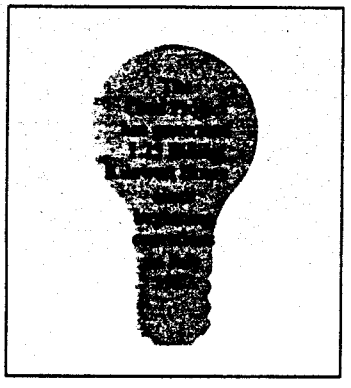
Strengthened management team.

Adoption of five-year strategic plan for growth.

Formation of C. E. Exploration Company to explore and develop geothermal prospects in the Pacific Northwest.

Organization of marketing department.

Initiation of contact with Chevron Resources that led to negotiations for acquisition of geothermal operations in Nevada and Utah.



Printed On Recycled Paper

Letter From The Chairman

Dear Fellow Shareholders,

With the bringing on-line of the ninth unit at the Coso Project, we have fulfilled our pact made with you and the financial community at the time of our initial public offering in March 1987.

We have proven beyond any doubt that we can successfully develop a major energy resource, and that we can quickly engineer and put into operation 240 megawatts of reliable generating capacity.

In doing these things, we have improved our financial standing considerably. We received $43 million from electricity sales in 1989, more than four times the amount earned in 1988; net income, after expenses, from all sources last year was $10.3 million, or 40 cents per share.

We are now poised to enter a new era, as we shift from what could be called a "war footing" mentality to a "steady state" mode in which we are guided by a longer range of vision.

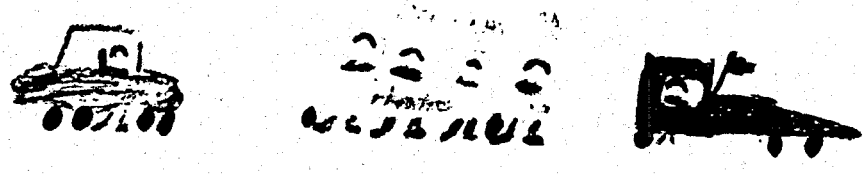
All of us at California Energy are rightfully proud of our accomplishment.

And yet...great as it has been, Coso is not what comes to mind first as I reflect upon my nineteen years with this company.

Instead, I firmly believe, our single most important task has always been education, in all its many forms and at all its many levels.

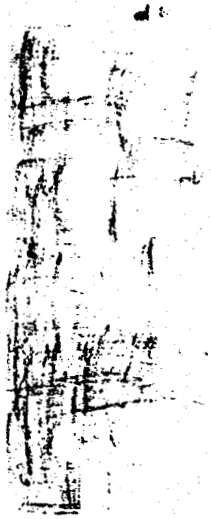
One of the most satisfying achievements for me personally was the children's contest which has provided us with both artwork and inspiration for this year's annual report.

The importance of education



"People Power"
Henry Chau, 3rd Grade
Treasure Island Elementary School

cannot be overstated. Before we could prove our success in the field, we had to educate.



First and foremost, we had to educate our staff. Without a sufficient body of knowledge about our industry, resource, and marketplace, we could not have developed the money, the manpower, the materials needed for the enormous tasks that lie ahead.

We had to educate many within the electricity industry itself – regulators, and even some utility executives – about the virtues of geothermal steam (an effort that continues today).

We had to educate many within the financial community about the role of the independents in the marketplace.

And we are all responsible for educating our children, the future generation, the pool from which we will draw our geologists, and engineers, and plant operators of the 21st century.

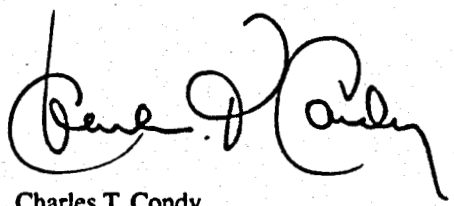
"Solar Power"
Carlos Ferreira, 3rd Grade
Starr King Elementary School

It is imperative that we instill in them an appreciation and understanding of mathematics, and science, and technology, not just for the sake of the children themselves, nor even for the sake of our company or industry. A sound and proper education is the underpinning of America's place in the world marketplace. The rise of our industrial strength parallels closely the broadening of our education system during the late 19th, early 20th centuries.

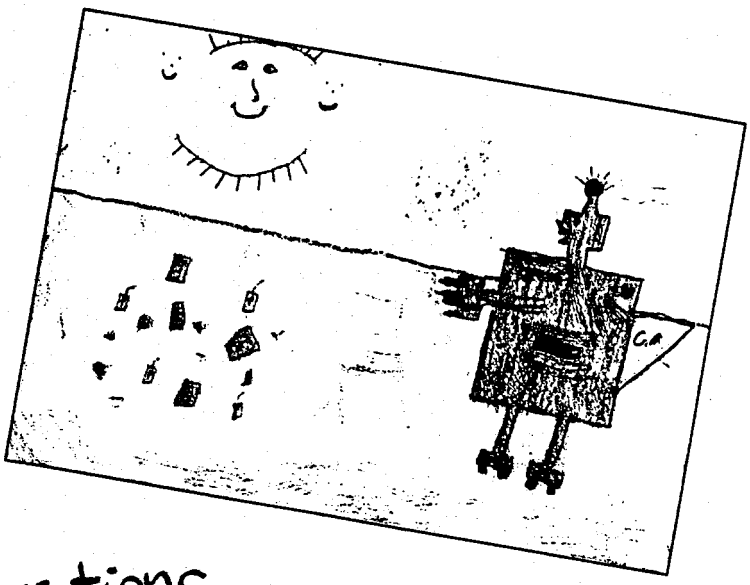
But if the American Era is to continue into the next century, if we would retain our position of leadership in the world economy, we must pay greater attention to our children.

We must become personally involved in the process of educating them.

Our future – their future – depends on it.



Charles T. Condy
Chairman of the Board
Chief Executive Officer



Review Of Operations

Far and away, the most significant accomplishment of the California Energy Company during 1989 was the successful completion of the Coso Geothermal Project, the culmination of more than three years of work on our part and by our many contractors, lenders, and, most importantly, our shareholders, who provided their continuing faith in our ability to deliver on some rather substantial promises.

"I saw the big generators that make the electricity and I saw on the computer all the areas where the steam comes from. I'm going to tell my class back at school we watched them make clean energy."

"Are you going to tell them you had a good time?"

"Yeah!"

"You enjoyed it?"

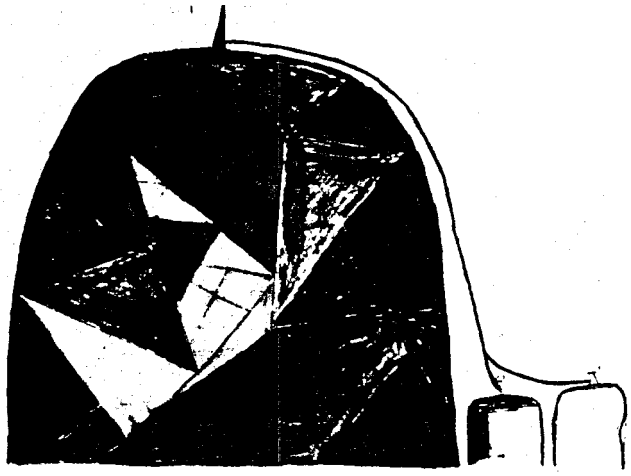
"Uh, huh! It was fun!"

Also prominent on the list of achievements by the employees of California Energy are:

- The substantial strengthening of our management structure with the organization of marketing and human resources departments.
- The adoption of a five-year strategic plan outlining the company's preferred direction of growth.

"The Garbage Picker-Up"
Jennifer Templeton, 4th Grade
Treasure Island Elementary School

- The establishment of a wholly owned subsidiary, CE Exploration Company, in Portland, Oregon, which gives the company a permanent, visible presence in the Pacific Northwest.
- The initiation of contacts with Chevron Resources Company that have led to the negotiations currently under way for the acquisition of both operating facilities and promising geothermal properties in Nevada and Utah.



These are the major business-world accomplishments of the people of California Energy during the past year. But there was another, more fundamental achievement, as well: Our transition from a company that is primarily motivated by a single project and a fast-track, "get-the-job-done-now" mentality to a company seeking a more measured pace of growth, in an orderly and profitable manner, through the maximization of all its many resources.

FIELD OPERATIONS

The people of California Energy have reason to be proud of their performance during the previous year. Thanks to their contributions, all of the company's 1989 strategic, financial, technical, production and operating efficiency targets were met, and in many cases exceeded. Their morale is high, as evidenced by, among other things, a very high rate of employee participation in all of the company's activities.

The start of operations of the Coso Project's ninth turbine generator unit in December marked the fulfillment of all of the promises the company made some three years earlier: promises to the financial community, to the users of our product and the utilities which bring it to them, and to you, our shareholders.

We now have nine geothermally

"Solar Farm"
Glenn Caraway, 3rd Grade
Bryant Elementary School

powered turbine generator units in commercial operation, providing the people and industries of Southern California with 240 megawatts of generating capacity. Our geothermal energy is both clean and economically competitive in the marketplace.

We did it just as we said we would do, on schedule and within budget, fulfilling the terms of our contracts with Southern California Edison, which buys 100 percent of our present electricity output.

During the previous year, the project has been transformed from a program on which as many as 2,500 people were kept busy working in support of the project, against a rigid and fast-approaching deadline, to a "steady state" operations facility. At one time during 1989, we had eight drilling units in operation preparing both production and injection wells, making us the busiest drill site in California. As of today, we have drilled a total of 98 wells (at an average cost of more than $1 million apiece). Our success rate has been better than 76 percent, considered exceptional in the high-risk drilling business. Most recently, our engineers have put into place a chemical injection system to help keep production wells free of scaling, reducing the costs associated with the removal of calcium deposits.

That we were able to effectively coordinate all of these activities, with both construction and operations people on the same jobsite at the same time, is a credit to everyone concerned: our own operations people, those of the contractor, Mission Power Engineering Co., and both the U.S. Navy and Bureau of Land Management, the federal agencies on whose property our facility is located.

At the same time, we were also

"Dr. Willy's Cell"
Yuki Kawai, 4th Grade
Clarendon Alternative Elementary School

able to satisfy the manufacturer of the turbines on the Navy I portion of the project that the equipment would stand up well; after observing an overhaul, the manufacturer agreed to warranty inspections every three years, rather than every two as originally specified. Such an inspection schedule means less planned-maintenance downtime and, therefore, greater revenues.

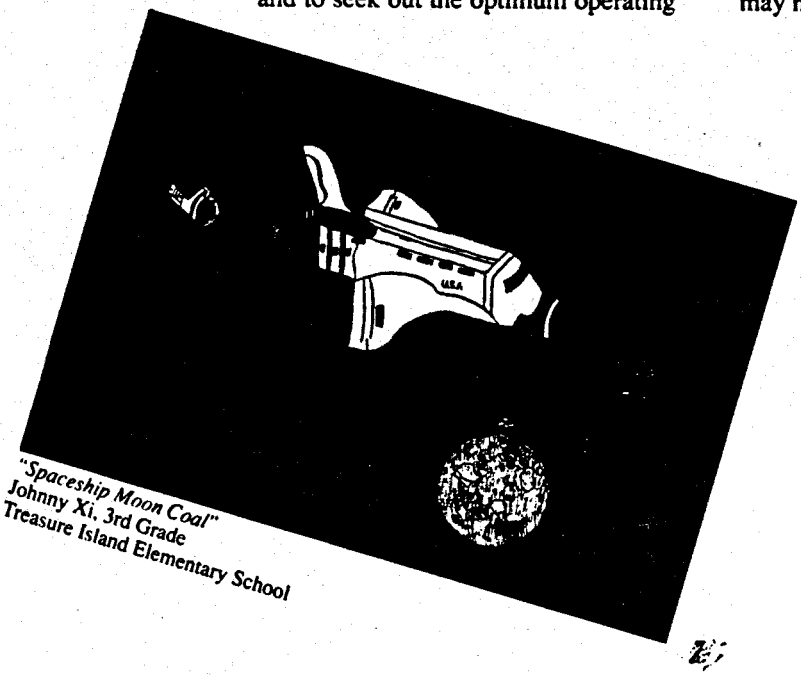
To oversee completion of this transition period, we added to our staff in late 1989 Major General Mark J. Sisinyak, U.S. Army Corps of Engineers (Ret.), as Vice President and General Manager, Coso District. Among Mark's 1990 goals will be to fine-tune the facility we have just brought into commercial operation and to seek out the optimum operating cycle among the many wells and turbine generator units. Also, some additional wells, both production and reinjection, may need to be drilled.

"Will we ever run out of oil and gas, do you think?"

"Yeah!"

"Will we ever run out of steam and water?"

"No. Because it's natural. If you use it all up (oil and gas), it goes into the atmosphere or whatever . . . you can't get it back. But steam is made out of water and the water goes through the water cycle and then you can get it back."



"Spaceship Moon Coal"
Johnny Xi, 3rd Grade
Treasure Island Elementary School

"Coal power, like in your old trains . . . well it pollutes the air because it gets dirty all over the place."

"It makes acid rain, too."

"Yeah!"

"Do you know what acid rain is?"

"It's where the dirt rains."

"What are some of the dangers of pollution?"

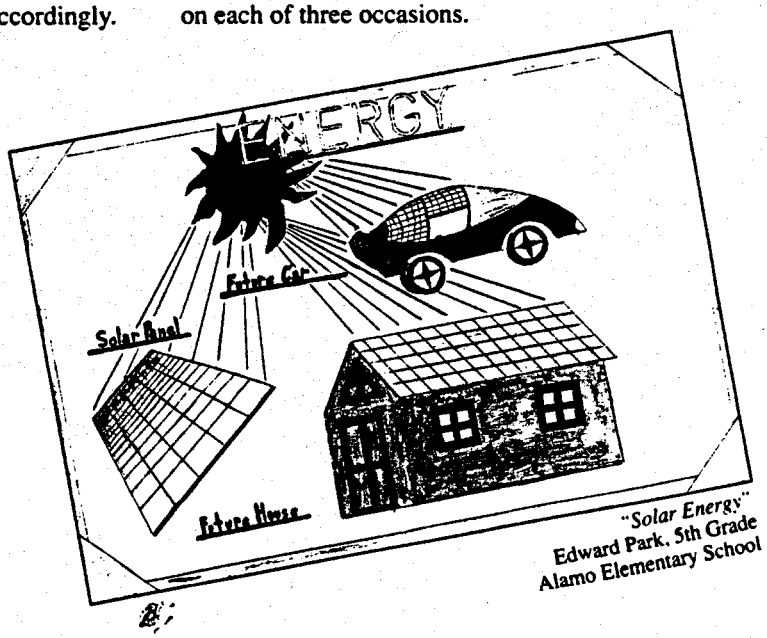
"Well, if you breathe it you start coughing and it would be a terrible thing to live with."

FINANCE

1989 was a watershed year for the company, the year in which we completed our flagship project. The financial community has responded accordingly.

Early in 1989, we were finishing arrangements for the financing of Units 7, 8 and 9 of the present Coso configuration; in December, the entire nine units had been constructed and were generating electricity.

Also in 1989 – and as a direct result of that performance in the field – we were able to triple our unsecured line of credit, from $5 million to $15 million. Two major banks – National Westminster and the Bank of Nova Scotia – have joined Credit Suisse in underwriting that credit, again demonstrating our growing financial stability. And, Credit Suisse, the original lender on the Coso Project, was able to offer participation in Coso's financing instruments to the world banking community – and be oversubscribed on each of three occasions.

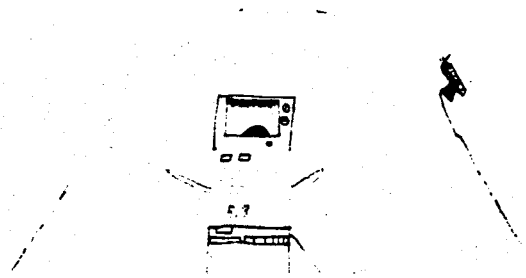


"Solar Energy"
Edward Park, 5th Grade
Alamo Elementary School

MARKETING

In June 1989, the company formally established its marketing department under the management of Vice President Gary Lavering. One of the group's first tasks was the establishment of a utility-industry data base. The company is now able to draw a detailed profile of every power generating facility in the western states, showing operating characteristics, generating costs, and atmospheric emissions, which we can then contrast with our own experiences with geothermally powered electricity.

In the fourth quarter of the year, the company formed a Government and Regulatory Affairs Committee, to help us better track and influence the public debates over such issues as global warming, access to the electricity transmission system, and national energy policy. The committee will closely monitor legislative and regulatory intitiatives, with particular attention given to the federal Clean Air Act, as well as the South Coast Air Quality Management

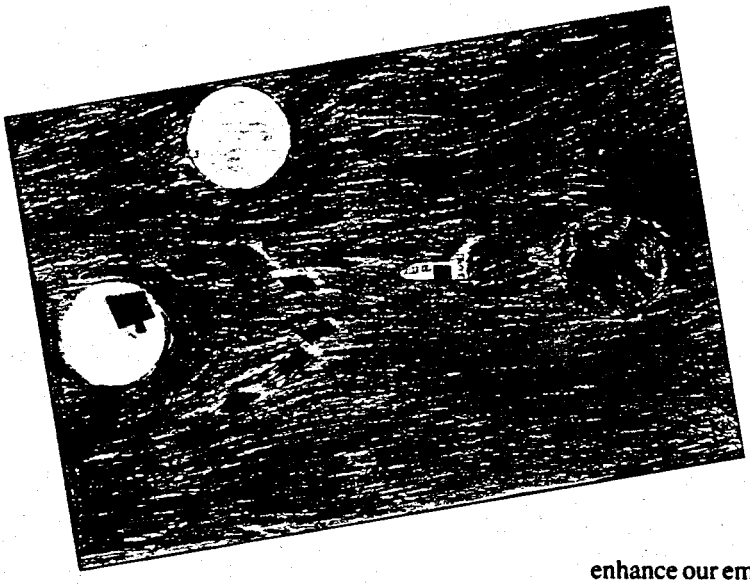


District, California Energy Commission, California Public Utilities Commission, Northwest Power Planning Council, and Federal Energy Regulatory Commission.

The marketing department has provided close support for California Energy executives who have testified before many of these and other public bodies during the year on such topics as pricing, transmission, and air quality.

These activities will help greatly in our efforts to levelize the playing field, by allowing us to clearly show legislators, regulators, and other utility observers the hidden benefits of clean geothermal energy versus the hidden costs associated with electricity gener-

"The Storm Machine"
Darnell Herbert, 3rd Grade
Paul Revere School



"*Solar Collectors*"
Ray Garcia, 4th Grade
Starr King Elementary School

ated from hydrocarbon fuels.

HUMAN RESOURCES

Last year was a year of enormous growth for the company, not only in terms of revenues, physical plant and generating capacity, but in terms of people, as well. The larger the physical plant we had to operate, the more people we needed to operate it; the more people we had in the field, the more important it was that we have an adequately staffed organization of professionals to manage this great resource of ours.

We have one of the lowest employee turnover rates in our industry, which in turn contributes greatly to our effectiveness in the marketplace. In order to maintain this level of commitment on the part of our employees, we plan to enhance our employee communications and development programs.

In late 1989, Richard Neumann joined our ranks as Vice President of Human Resources. The addition of Dick

"What color is electricity?"

"What color do you want it to be? Sometimes, at night, you can see a yellow bolt going through the sky or sometimes it could be white."

"Sometimes when you take the 'plugger' out (of the socket), there's blue stuff flashing; what is that?"

"That's an arc. When you pull the plug out and disconnect the power, it's actualy burning the oxygen in the air. What you see is the combustion."

"How does the ice stay out on the ground if there's heat in the ground?"

"The heat is deep. We have to drill anywhere from 3,000 to 8,000 feet to get to the heat."

"If snow falls could it be put back in the ground so it could come out hot again?"

"Sure. When the snow turns back into water, it's absorbed into the earth and when it gets back down to where the the rocks are, it turns to steam. It's a revolving cycle."

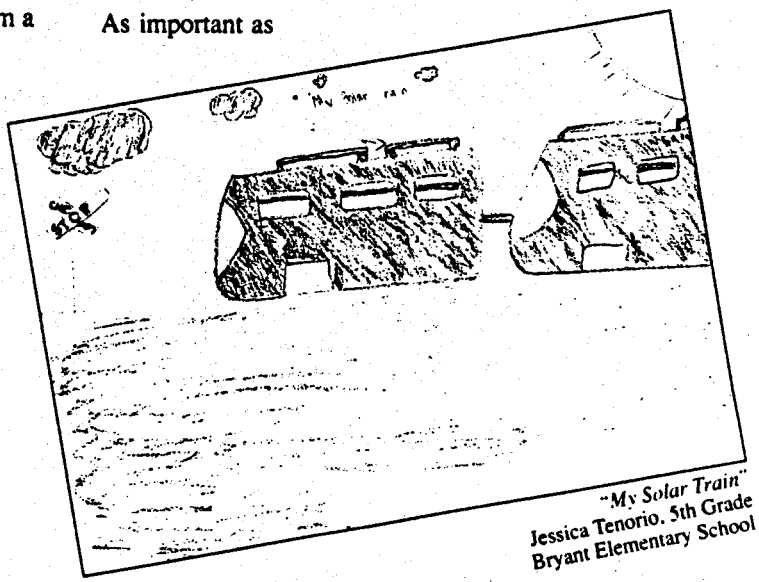
to our team marks an important change in our planning for the future. Dick is building a strong human resources team in order to manage our growth in coming years as we make the transition from a strictly entrepreneurial enterprise forging through uncharted territory to the kind of operating unit which functions best in a more organized atmosphere.

A frequent lecturer and adjunct faculty member at two San Francisco area universities, Dick brings to our company more than 33 years of experience managing human resource needs in a technical, engineering environment.

We now believe we are well positioned, with the right team of highly motivated people, to continue an aggressive yet managed growth rate in the coming decade.

THE FUTURE

As important as



"My Solar Train"
Jessica Tenorio, 5th Grade
Bryant Elementary School

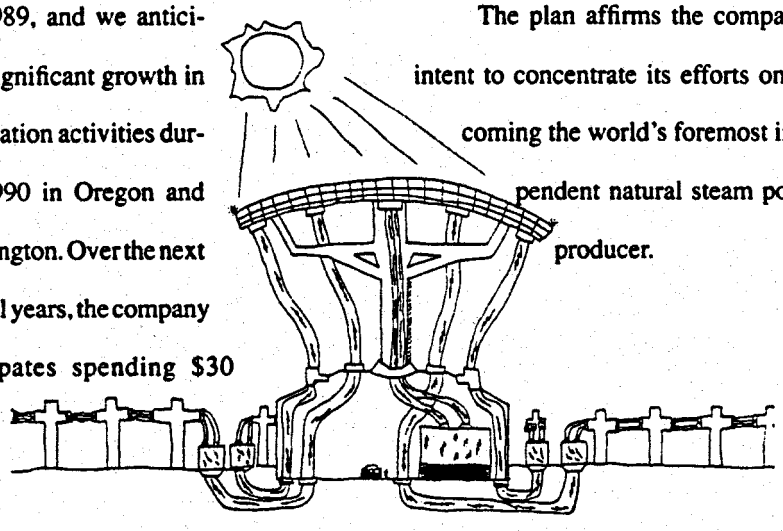
it is to our company's growth and future, Coso is not, nor has it ever been, the exclusive object of our attentions.

Even while we focused most of our energies on putting together the financing and sales agreements necessary for a successful project in the Mojave Desert, we also continued our exploration activities elsewhere in California, in the Pacific Northwest, and beyond.

Through a wholly owned subsidiary company, CE Exploration Company, we opened an office in Portland, Oregon. President and chief operating officer is Robert D. Tibbs. The company drilled two core holes in southern Oregon during 1989, and we anticipate significant growth in exploration activities during 1990 in Oregon and Washington. Over the next several years, the company anticipates spending $30 million on leasehold acquisition and exploration activities.

In recognition of the then-pending completion of the first phase of Coso's development, a task force led by President Michael Heys and comprised of Vice Chairman Harold Robinson III, Robert Tibbs, Donald O'Shei, and Gary Lavering in early 1989 undertook a formal review of what we wanted our company to become, and how we wanted to get there. The result of that process was a 30-page document called the "Strategic Plan for Growth 1990-1994," which was adopted by the board of directors in July 1989.

The plan affirms the company's intent to concentrate its efforts on becoming the world's foremost independent natural steam power producer.



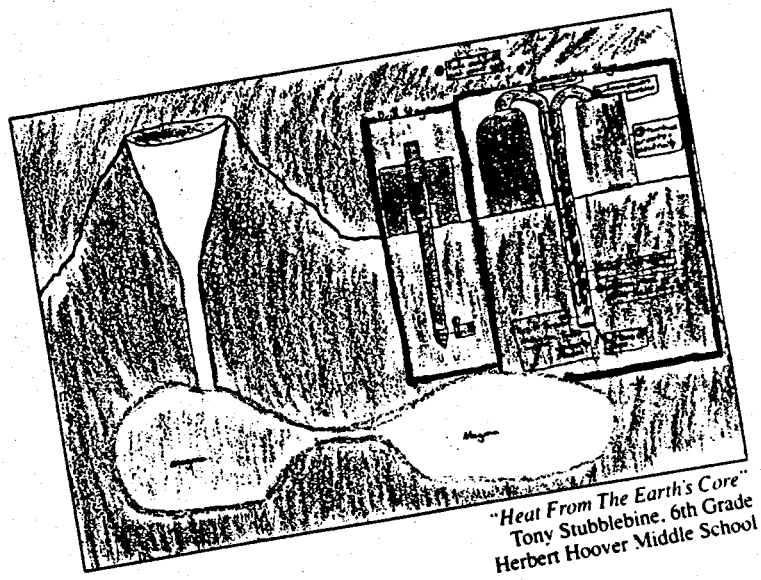
"Solar Energy Power Plant"
Nguyen Van Bay, 6th Grade
Presidio Middle School

"What's the most in the world? Gas, or oil, or electricity?"

"Hmmm, well . . . you mean, which fuel do we use the most?"

"Yes."

"Most of the world uses coal, and gas, and hydro power to make electricity. Geothermal is really just getting started."

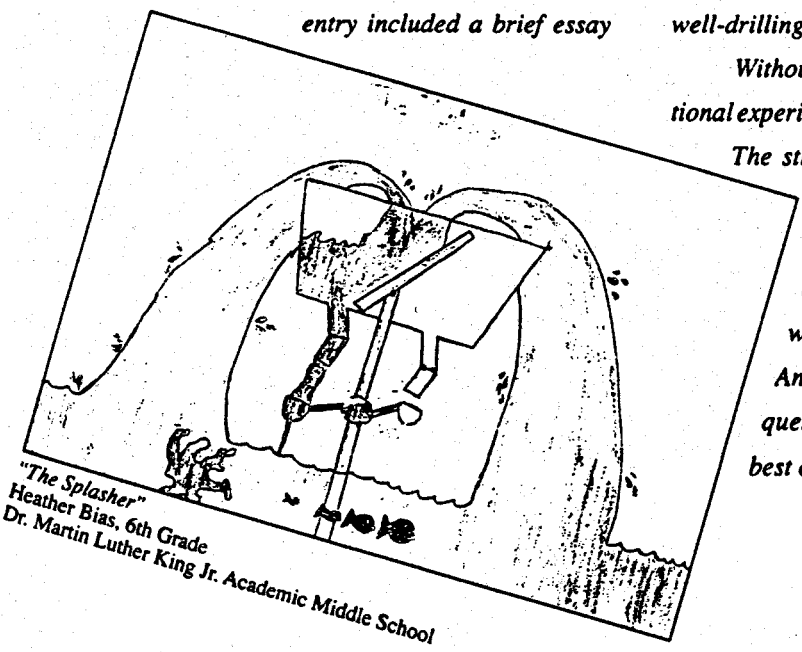


"Heat From The Earth's Core"
Tony Stubblebine, 6th Grade
Herbert Hoover Middle School

The illustrations in this report represent the efforts of the top fourteen finalists in our contest: Search for the Ideal Energy Source of the Future. Each student's entry included a brief essay explaining their concept of the ideal energy source.

In addition to the monetary prizes granted for their college tuition, the winners were awarded a tour of California Energy Company's Coso Geothermal Project. Upon their arrival at the site, each student was teamed with their own guide – mentor if you will – from the Company's engineering and resource staffs. For the next several hours each student was given a personal tour of the Project, encompassing every aspect from well-drilling to power production.

Without a doubt it was an educational experience for everyone involved. The students gained a clear understanding of how electricity is generated in an environmentally preferable way from geothermal steam. And, occasionally, their tough questions stumped even our best experts.



"The Splasher"
Heather Bias, 6th Grade
Dr. Martin Luther King Jr. Academic Middle School

When the price of petroleum rocketed from around $2 to almost $30 per barrel during the 1970s and early '80s, the industrialized world was stunned.

Society had become addicted to petroleum, and suddenly it was no longer available on the same easy terms. The public demanded that industry look for other energy sources.

> *"I'd like to be remembered the same way as Teddy Roosevelt . . . I want to leave a legacy of unspoiled land for our children and our children's children."*
>
> *President George Bush*

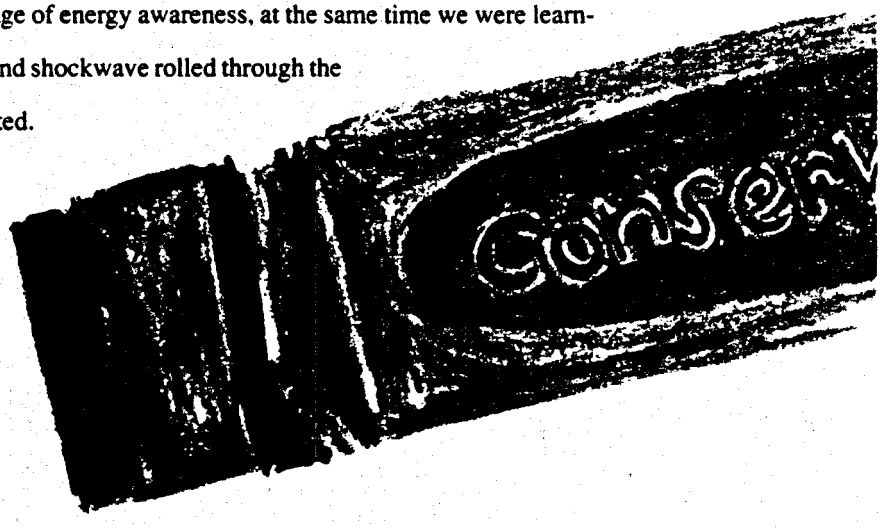
So we did. And we started finding them: solar, wind, geothermal.

And, when engineers took a closer look at how society was using the energy that was being produced, they found a variety of ways it could be used more efficiently, with dramatic results.

According to a recent study for the U.S. Department of Energy, Americans were able to improve their energy efficiency by one third between 1971 and 1986, reducing the nation's energy bill for those years by $150 billion.

Use of energy by American industry, according to other studies, has actually dropped 17 percent between 1973 and 1986, in spite of a 17 percent rise in industrial production.

But just as we were entering this new age of energy awareness, at the same time we were learning to use less energy to do more work, a second shockwave rolled through the energy marketplace. The cost of oil plummeted.



Instead of the $40 per barrel we were told to expect, the price dipped to the low 'teens in the mid-1980s, half its post-embargo high.

As a result, public enthusiasm for alternative energy, and conservation, cooled noticeably. That was a mistake.

The price of energy has moved up again. We may yet see $40/barrel oil. We are learning more every day about the hidden costs of burning hydrocarbons: acid rain, "greenhouse" gasses, ozone depletion.

And, as a result, the public is once more becoming aware of the need to find cleaner fuels and more efficient ways to use them.

"Practicing energy conservation is essential to keeping California economically competitive, improving air quality

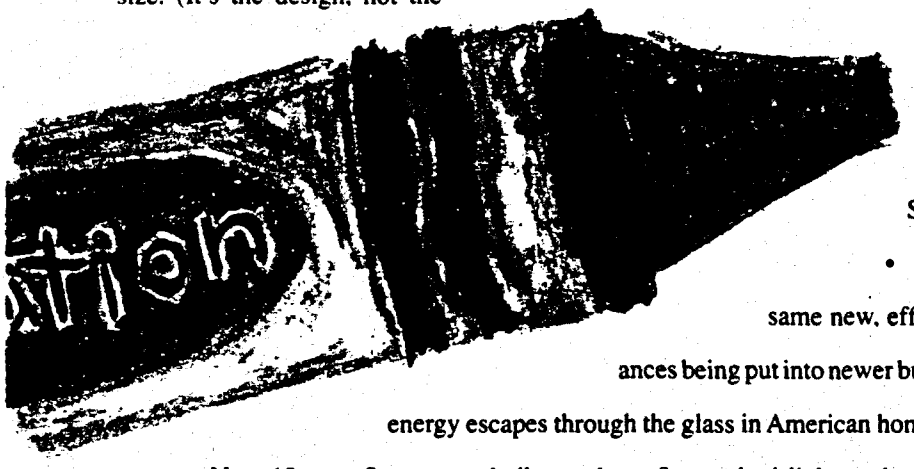
and enhancing consumer purchasing power for other products and services," says Charles Imbrecht, chairman of the California Energy Commission.

> *"Practicing energy conservation is essential to keeping California economically competitive, improving air quality, and enhancing consumer purchsing power for other products and services."*
> *Charles R. Imbrecht, Chairman*
> *California Energy Commission*

As much as has already been achieved by conservation, there still remains a great deal more we can do. The Department of Energy says an additional $200 billion could be shaved from America's energy bill between now and the year 2000.

It will take a combination of big and small steps, but most of them are surprisingly easy. Among them:

- New ideas in building design can cut energy use by two thirds or more. In Sweden, where energy efficiency is a national policy, heating a house takes about 40 percent of the energy required to warm a typical U.S. house of similar size. (It's the design, not the nationality: some recently built super-efficient homes in Minnesota can be heated for 20 percent less energy per square foot than the Swedish homes.)



- Existing structures can be retrofit with the same new, efficient insulation, window glass and appliances being put into newer buildings. (It has been estimated that as much energy escapes through the glass in American homes as flows through the Alaskan pipeline.)
- New 18-watt fluorescent bulbs made to fit standard light sockets can put out as much light as a 75-watt incandescent lamp, and they'll last for years. These are just some of the things that can be done now, with no further research or development required, and with no sacrifices in our standard of living.

> *"Things are happening so fast . . . Societies have to cross a certain threshold of awareness and concern about an issue before there can be effective political response."*
> *Lester Brown*
> *World Watch Institute*

For more ideas, take a look at the "Resource-Efficient Housing Guide" published by the Rocky Mountain Institute, Snowmass, Colorado, and "50 Simple Things You Can Do To Save The Earth" by the EarthWorks Group, Berkeley, California. Also: participate in recycling programs (aluminum cans, newspapers, glass bottles and jars). Plant a tree. Ride public transit. Buy fuel efficient cars and energy efficient kitchen appliances.

Finally, when you're done reading this report, turn off the lights.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(dollars in thousands except per share and per KWH data)

The following is management's discussion and analysis of certain significant factors which have affected the Company's financial condition and results of operations during the periods included in the accompanying statements of operations.

Results of Operations:

Net income in the year ended December 31, 1989 (fiscal 1989) was $10,336 (40 cents per common share) compared to a loss of $258 (1 cent per common share) in the year ended December 31, 1988 (fiscal 1988) and a loss of $386 (2 cents per common share) in the eleven months ended December 31, 1987 (fiscal 1987). All per share amounts reflect the three-for-two stock split in the form of a dividend paid on March 17, 1989 and the 4% stock dividends paid on January 15, 1990 and January 16, 1989.

Income before taxes comprises the following:

	1989	1988	1987
Equity interest in joint ventures*	$10,486	$(885)	$(555)
Management fees	1,658	345	113
Interest expense	(994)	(310)	–
Interest and other income and expenses	2,149	592	300
Loss on extinguishment of debt	–	–	(244)
Postponed financing costs written off	(248)	–	–
	$13,051	$(258)	$(386)

*Represents the Company's proportionate share of the joint ventures' profit before management fees.

The increase in sales of electricity to Southern California Edison (SCE) to $43,010 in fiscal 1989 from $10,673 (303%) in fiscal 1988 and $3,156 (1,263%) in fiscal 1987 was due to increased price per KWH and an increase in electric kilowatt-hour sales to 905,500,000 KWH from 261,300,000 KWH (247%) in fiscal 1988 and 83,210,000 KWH (988%) in fiscal 1987. The increase was primarily due to the commencement of commercial operation of Navy I, Units 2 and 3 in December 1988 and of the BLM turbines on March 13, May 23 and August 17, 1989, respectively. The Coso Project, when complete, will consist of three turbines at each of the Navy I, Navy II, and BLM plants. All three Navy II turbines synchronized in December 1989 and two turbines commenced firm power testing in January 1990. The third turbine is expected to commence firm power testing shortly.

The Navy I plant capacity factor was 94.5% in fiscal 1989 compared to 94.2% in fiscal 1988 and 85.6% in fiscal 1987. During fiscal 1989 its capacity factor was 90.9%, 96.2%, 98.0% and 92.6% in the first, second, third and fourth quarters, respectively. The increase in the second quarter over the first quarter was due to the interconnection of the gathering system for Unit 1 with that for Units 2 and 3, in March 1989. The decrease in the fourth quarter was due to the warranty inspection on Units 2 and 3 which took place in October and November 1989.

The BLM plant capacity factor was 80.4% in fiscal 1989 – 96.0%, 77.0%, 83.3% and 78.0% in March 1989, and the second, third and fourth quarters, respectively. The decrease in the second quarter occurred when the second turbine commenced commercial operations. The decrease in the fourth quarter was due to the Company performing well testing. The company had planned to perform warranty inspections on BLM East in the fourth quarter, but subsequently determined that such inspections would be deferred to the first quarter of 1990.

The above capacity factors reflect adjustments to eliminate the effects of curtailments by SCE in the third and fourth quarters. These curtailments, which amounted to 500,000 KWH and 48,400,000 KWH in the third and fourth quarters,

respectively, were claimed by SCE to be necessary in connection with upgrades to SCE's transmission system in order for the system to service the Company's projects.

Electric sales price per KWH varies seasonally in accordance with SCE's rate schedule. The price consists of an energy payment based on the Company's annualized contracted rate of 7.6 cents per KWH in 1989 (8.1 cents in 1990 and 6.9 cents in 1988) and constant annual capacity payments which aggregate $5,300 to $5,900 per annum for the three turbines of each power plant. Capacity payments are significantly higher in the months of June through September. Prices per KWH in 1989 and 1988 comprise (in cents):

	Energy	Capacity and Bonus	Total
Average Fiscal 1989	7.63	2.49*	10.12*
Average Fiscal 1988	6.86	1.94	8.80
Three Months Ended:			
December 31, 1989	7.48	0.76	8.24
September 30, 1989	7.83	5.19	13.02
June 30, 1989	7.56	2.37	9.93
March 31, 1989	7.62	0.65	8.27
December 31, 1988	6.80	0.42	7.22
September 30, 1988	6.88	4.89	11.77
June 30, 1988	6.87	2.10	8.97
March 31, 1988	6.90	0.64	7.54

*Represents annualized price per KWH. The capacity price is significantly higher in the months June through September; accordingly, the average price for plants operational less than an entire year varies based upon the period in which they are operational.

The Company is the managing partner of joint ventures for which the Company earns a fee. In addition, under the terms of the operating and maintenance agreements (O&M agreements) between the Company and the joint ventures, the Company is the O&M contractor responsible for the operations and maintenance of the plant and field. The fees payable to the Company under the O&M agreements were revised in the fourth quarter of 1989. The impact on prior quarters was not material. Management fees in 1989 increased 381% to $1,658 from $345 in 1988 and 1,376% from $113 in 1987 as the joint ventures became operational.

Interest and other income in fiscal 1989 was $2,149 as compared to $592 in 1988 and $300 in 1987 due to changes in the amount of cash available for investment and the amounts due from the joint venturers.

Costs per KWH were as follows (in cents):

	Fiscal 1989	1988	1987
Plant operations, general and administration	2.42	4.00	3.44
Royalties	0.73	1.64	2.33
Depreciation and amortization	1.56	1.90	1.80
Interest	3.46	3.00	2.77
	8.17	10.54	10.34

Expenses as a percentage of sales of electricity costs were as follows:

	Fiscal 1989	1988	1987
Plant operations, general and administration	23.8%	45.4%	42.2%
Royalties	7.2	18.6	28.5
Depreciation and amortization	15.4	21.6	21.9
Interest	34.2	34.1	33.9
	80.6%	119.7%	126.5%

Plant operations, general and administration costs increased 111.5% and 670.0% in fiscal 1989 from fiscal 1988 and 1987, respectively. Cost per KWH decreased to 2.42 cents from 4.00 cents and 3.44 cents due to the increased efficiency of operating additional turbines at Navy I and BLM in 1989, compared to one turbine in most of 1988 and 1987. The increase in cost per KWH in 1988 from 1987 was due to well workovers in 1988. The cost per KWH during 1989 was 1.93 cents, 2.04 cents, 2.26 cents and 3.26 cents in the first, second, third and fourth quarters respectively. The increase in the fourth quarter resulted from the lower level of capacity in the quarter due to curtailment, warranty inspections and well testing (referred to above), increased property taxes (from July 1), an increase in chemical injection costs, the additional cost related to BLM East and West being physically separated and additional general and administrative costs related to the opening of the office in Portland, Oregon. The Company anticipates that the cost per KWH will fall below 3 cents in 1990 [assuming a similar capacity level to that of 1989 is achieved] but will be higher than in 1989 due to the addition of marketing and planning departments, the Portland office and higher property taxes and transmission line costs.

Royalty costs increased 56.9% and 246.4% in fiscal 1989 from fiscal 1988 and 1987, respectively. Royalty cost per KWH, decreased to .73 cents from 1.64 cents and 2.33 cents per KWH, respectively, due to Navy I, Units 2 and 3 and BLM having lower royalty rates than Navy I, Unit 1 and the purchase of the Navy I, Unit 1 construction contractor's royalty in July 1988.

Depreciation and amortization, which increased 186.4% and 855.9% from fiscal 1988 and 1987, respectively, decreased to 1.56 cents per KWH in fiscal 1989 from 1.90 cents and 1.80 cents in fiscal 1988 and 1987, respectively, due to the increase in the estimated useful life of the plants (0.23 cents per KWH) and a lower installed capital cost per KWH for Navy I, Units 2 and 3 and BLM than Navy I, Unit 1.

Interest expense, which increased 304.1% and 1275.1% from fiscal 1988 and 1987, respectively, was 3.46 cents per KWH in fiscal 1989 up from 3.00 cents and 2.77 cents, respectively. The increase was due to a higher level of debt financing of BLM than Navy I, a decrease in the proportion of interest capitalizable as the company changes from being primarily in a construction mode to an operating mode and commencement of contingent interest payable on the Senior Notes from July 1, 1989. The increase in interest cost per

KWH in 1988 over 1987 was due to the buy-out of the contractor's plant royalty.

The average interest rate on floating rate debt was approximately 10.8%, 10.5% and 8.9% for fiscal 1989, 1988 and 1987, respectively, and approximately 10.3% at December 31, 1989. The interest rate on floating rate debt is fixed for periods from one to seven months.

During the second quarter, the Company postponed its Liquid Yield Option Notes (LYONs) offering indefinitely. Accordingly, deferred financing costs of $248 incurred were written off as of June 30, 1989.

The Company has adopted FAS 103 which defers FAS 96, "Accounting for Income Taxes," until 1992. The impact on the financial position of the Company of the adoption of FAS 96 has not yet been determined. The provision for income taxes is based on the effective tax rate in 1989 of 20.81% which consists of the federal income tax (15.18%) and state income taxes (5.63% net of federal taxes). The estimated effective tax rate was revised during fiscal 1989 from 18% due to limitations on the amount of investment tax credits which may be utilized for book tax purposes, and limitations in the amount of percentage depletion available for state tax purposes. The Company does not expect to pay significant income taxes for several years due to net operating losses and tax credits from prior years available for offset against taxable income.

Inflation currently is not having a material impact on the financial statements of the Company. The Company's gross revenue for the first ten years of deliveries under the long-term contracts with SCE include escalation clauses under which the energy portion of revenues increases at an average rate of 7.8% per year for the first ten years of operations.

The Company will have repaid all of its existing project debt at the end of the year 2000. As a measure of comparison of the cost per KWH at that time, the total cost per KWH in 1989 dollars, excluding royalties (which are based on revenues) and interest, is 3.98 cents, of which 1.56 cents represents depreciation. The Company anticipates that its cost per KWH will not be impacted by inflation more adversely than that of its competitors.

Revenues at the end of the first ten years of operations will comprise the capacity and bonus payments of approximately 2 cents per KWH and the energy payment based on SCE's avoided cost at that time. Currently, SCE's avoided cost is approximately 3.4 cents per KWH giving a total of 5.4 cents per KWH. The Company believes that the avoided cost will increase over time due to increases in the cost of other fuels due to inflation and decreasing domestic availability of oil and gas reserves. The Company has been advised by SCE that SCE estimates avoided cost for 1999 will be approximately 7.6 cents per KWH which would result in total revenues of 9.6 cents per KWH (including the capacity payment) compared to the total contract price in 1999 of 17.6 cents (including the capacity payment). If the current inflation rate of approximately 5% continues for the next ten years, the current cost per KWH in 1999, for the two plants whose revenues are based on avoided cost in that year, will be approximately 5 to 6 cents leaving a margin of 3.6 to 4.6 cents per KWH (including royalties but excluding management fees, interest and other income) compared to the margin for 1989 of 1.95 cents per KWH.

In July 1989, the Company resumed exploration drilling in the Cascades.

Liquidity and Capital Resources:

Cash and short-term investments were $7,917 at December 31, 1989 as compared to $7,019 at December 31, 1988. In addition, $13,000 of the $15,000 short-term bank loan facility (see below) has been drawn down compared to $1,920 at December 31, 1988.

The reduced level of cash liquidity is due to an increase in accounts receivable from SCE and from the joint ventures.

Accounts receivable from SCE normally represents two months' revenues as revenues are billed monthly during the first week of the month following delivery. SCE normally makes payment approximately 30 days from billing. Accordingly, November and December revenues were collected by the first week of January and February, respectively. The accounts receivable fluctuate with both production and price per KWH.

The Company expected that the amounts due from joint venturers would be substantially reduced during the fourth quarter, as the joint ventures collected the accounts receivable from SCE.

The balance due from the joint venturers as of December 31, 1989 consisted of approximately $3,000, $5,000 and $4,000 from the joint venturer partners of CFP (Navy I), CED (BLM) and CPD (Navy II), respectively. The Company received $1,600 with respect to CFP in January 1990; the balance being due February 15, 1990. The Company has issued $5,000 capital calls for each of CED and CPD's partners of which an aggregate total of $7,000 had been received from the joint venturers as of February 15, 1990.

In 1987 and 1988, the Company entered into non-recourse project finance loan agreements with Credit Suisse for all the turbine-generator units including construction phase financing. The loans provided financing for the purchase of Unit 1 of the Navy I Power Plant and for funding for the construction of Units 2 and 3 of the Navy I Power Plant, the BLM Power Plant of 3 units and Navy II Power Plant of 3 units. The Company's proportionate share of those loans is $241,044 of which $3,016 has been repaid in 1989 and $227,406 had been drawn down as of December 31, 1989. The plant loans are to be repaid over a nine to ten year period after completion of construction with interest at variable rates ranging from 1% to 1.45% over LIBOR (London Interbank Offered Rate).

The estimated cost to complete the Navy II power plant is approximately $10,000. In management's opinion, the remaining $13,638 of the Credit Suisse financing (which includes contingencies and the $8,468 currently due to the construction contractor) together with cash and cash equivalents and future cash flows will provide the financing necessary to complete the entire Coso Project as currently contemplated.

In September 1989, the Company converted the production payment (under which the Company was obligated to pay up to 7% [after return of capital] of the net cash flow from Navy I, Unit 1) to a note payable. Under the terms of the note, the Company will pay an aggregate of $2,962 interest and principal.

Payments will be in varying amounts through January 1993.

Net proceeds from the 1,460,792 warrants and options exercised in fiscal 1989 aggregated approximately $3,557 and all of the debentures outstanding at December 31, 1988 were converted into 589,538 shares of common stock during the first quarter of 1989.

On August 3, 1989, the Company entered into a $15,000 multi-year Credit Agreement with Credit Suisse and two other participating banks which replaced the then existing unsecured lines of credit. Under the terms of the agreement, the Company may draw funds under a one-year revolving line of credit, with interest payable, at the Company's option, based on the Federal Funds rate plus 1%, Euro Dollar rate plus 1%, or Base rate plus 5/8%. At the end of the revolving period, the revolving loan can be extended for another year or converted into a two-year term loan, with interest payable, at the Company's option, based on Euro Dollar rate plus 1.5% or Base rate plus 1%.

In February 1990, the Company signed a letter of intent with Chevron Resources Company (Chevron) to acquire approximately 84,000 acres of geothermal lands including Chevron's 100% interest in a 9MWe power plant at Desert Peak, Nevada, 50% interest in a 16.6MWe power plant at Beowawe, Nevada and 70% interest in a steam field supplying a 25MWe power plant owned by Utah Power and Light. The Company believes that there are significant geothermal resources underlying these projects. The Company expects to finance the acquisition with a combination of equity and debt.

SELECTED FINANCIAL DATA

(in thousands except per share data):

	Year Ended December 31,		11 Months Ended December 31,	Year Ended January 31,	
	1989	1988	1987	1987	1986
Sales of electricity	$43,010	$10,673	$3,156	$ —	$ —
Other income	4,961	1,845	693	22	25
Expenses	34,920	12,776	4,235	165	96
Income before provision for income taxes	13,051	(258)	(386)	(143)	(71)
Net income (loss)	10,336	(258)	(386)	(143)	(71)
Net income (loss) per share	0.40	(0.01)	(0.02)	(0.01)	(0.01)
Total assets	349,282	210,164	67,120	22,218	14,329
Total liabilities	305,265	181,277	39,515	8,344	833
Deferred income	1,854	2,268	1,507	1,281	1,049
Stockholders' equity	42,163	26,619	26,098	12,593	12,447

CONSOLIDATED BALANCE SHEETS

(dollars and shares in thousands, except per share amounts)

ASSETS	December 31 1989	1988
Cash and short-term investments	$ 7,917	$ 7,019
Restricted cash	4,226	820
Accounts receivable	7,110	1,464
Due from joint venturers	12,365	8,117
Geothermal power plant and development costs, net	304,297	183,103
Equipment, net	5,283	2,620
Deferred charges and other assets	8,084	7,021
Total assets	$349,282	$210,164
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Short-term bank loan	$ 13,000	$ 1,920
Accounts payable	3,454	6,775
Amounts due to construction contractor	8,468	8,445
Other accrued liabilities	17,508	8,517
Project finance loans	224,390	120,382
Convertible subordinated debentures	–	1,814
Senior notes	35,730	31,800
Production payment	–	1,624
Deferred income taxes	2,715	–
Total liabilities	305,265	181,277
Deferred income	1,854	2,268
Commitments and contingencies (Notes 3, 8, and 12).		
Stockholders' equity:		
Preferred stock – authorized 1,000 shares, no par value, none issued	–	–
Common stock – authorized 50,000 shares, par value $0.0675 per share, issued and outstanding 22,007 and 19,958 shares at December 31, 1989 and 1988, respectively	1,486	1,347
Additional paid-in capital	31,859	26,790
Retained earnings (accumulated deficit)	8,818	(1,518)
Total stockholders' equity	42,163	26,619
Total liabilities and stockholders' equity	$349,282	$210,164

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

(dollars and shares in thousands, except per share amounts)

	Year Ended December 31, 1989	Year Ended December 31, 1988	11 Months Ended December 31, 1987
Revenues:			
Sales of electricity	$43,010	$10,673	$3,156
Interest and other income	4,961	1,845	693
Total revenues	47,971	12,518	3,849
Costs and expenses:			
Plant operations, general and administration	10,256	4,849	1,332
Royalties	3,111	1,983	898
Depreciation and amortization	6,605	2,306	692
Interest	14,700	3,638	1,069
Postponed financing costs written off	248	–	–
Loss from extinguishment of debt	–	–	244
Total expenses	34,920	12,776	4,235
Income (loss) before provision for income taxes	13,051	(258)	(386)
Provision for income taxes	2,715	–	–
Net income (loss)	$10,336	$ (258)	$ (386)
Net income (loss) per share	$ 0.40	$ (0.01)	$ (0.02)
Average number of shares outstanding	25,980	19,685	18,869

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

for the years ended December 31, 1989, and 1988 and
for the eleven months ended December 31, 1987
(dollars and shares in thousands)

	Outstanding Common Shares	Additional Common Stock	Paid-In Capital	Retained Earnings (Accumulated Deficit)	Employee Notes and Treasury Stock	Total
Balance, January 31, 1987	16,119	$1,088	$12,574	$ (874)	$(195)	$12,593
Net proceeds from issuance of common stock	3,544	239	13,570	–	–	13,809
Net proceeds from issuance of warrants	–	–	26	–	–	26
Payment of employee notes	–	–	–	–	72	72
Acquisition of treasury stock	(1)	–	–	–	(16)	(16)
Net (loss)	–	–	–	(386)	–	(386)
Balance, December 31, 1987	19,662	1,327	26,170	(1,260)	(139)	26,098
Payment of employee notes	–	–	–	–	139	139
Net proceeds from issuance of common stock	17	1	18	–	–	19
Net proceeds from exercise of warrants	275	19	589	–	–	608
Conversion of debentures	4	–	13	–	–	13
Net (loss)	–	–	–	(258)	–	(258)
Balance, December 31, 1988	19,958	1,347	26,790	(1,518)	–	26,619
Net proceeds from exercise of stock options	93	6	349	–	–	355
Net proceeds from exercise of warrants	1,367	93	3,109	–	–	3,202
Conversion of debentures	589	40	1,611	–	–	1,651
Net income	–	–	–	10,336	–	10,336
Balance, December 31, 1989	22,007	$1,486	$31,859	$ 8,818	–	$42,163

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Year Ended December 31, 1989	Year Ended December 31, 1988	11 Months Ended December 31, 1987
Cash flows provided by (used in) operating activities:			
Net income (loss)	$ 10,336	$ (258)	$ (386)
Adjustments to reconcile net cash provided by operating activities:			
Depreciation and amortization	6,605	2,306	692
Amortization of deferred financing costs	638	156	95
Increase in accounts receivable	(5,615)	(800)	(664)
(Increase) decrease in other assets	181	(997)	–
Increase in accounts payable and accrued liabilities	1,986	908	332
Increase (decrease) in deferred income	(414)	761	226
Increase in deferred taxes	2,715	–	–
Postponed financing costs written off	248	–	–
Net cash provided by operating activities	16,680	2,076	295
Cash flows provided by (used in) investing activities:			
Capital expenditures relating to power plants	(96,212)	(87,280)	(27,522)
Exploration and development costs	(27,410)	(38,015)	(12,983)
Acquisition of other property and equipment, net	(2,910)	(1,999)	(1,057)
Increase in accounts payable and accrued liabilities	2,024	10,427	863
Increase in amounts due to construction contractor	23	5,636	2,809
(Increase) decrease in restricted cash	(3,406)	1,240	(2,060)
Other	(183)	(212)	–
Net cash (used in) investing activities	(128,074)	(110,203)	(39,950)
Cash flows provided by (used in) financing activities:			
Proceeds from sale of common stock and exercise of warrants and stock options	3,557	627	13,809
Proceeds from issuance of warrants to purchase common stock	–	–	26
Proceeds from issuance of convertible debentures	–	–	327
Proceeds from issuance of senior notes	–	30,000	–
Proceeds from project finance loans	107,024	92,842	31,048
Repayment of project finance loans	(3,016)	(1,082)	(4,694)
Production payment advances	–	–	1,533
Redemption of convertible debentures	–	–	(1,600)
Increase in amounts due from joint venturers	(4,248)	(7,222)	(574)
Increase in short-term bank loan	11,080	1,920	–
Increase (decrease) in accounts payable and accrued liabilities	36	(767)	553
Deferred charges relating to debt financing	(2,141)	(3,855)	(989)
Other	–	230	967
Net cash flows provided by financing activities	112,292	112,693	40,406
Net increase in cash and cash equivalents	898	4,566	751
Cash and cash equivalents at beginning of period	7,019	2,453	1,702
Cash and cash equivalents at end of period	$ 7,917	$ 7,019	$ 2,453
Interest paid	$ 22,335	$ 5,112	$ 1,230

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except per share amounts)

1. BUSINESS:

California Energy Company, Inc. (the Company) was formed in 1971 and is engaged in the exploration for and development of geothermal resources and conversion of such resources into electrical power for sale to electric utilities.

The Company has organized several partnerships and joint ventures (herein referred to as joint ventures) in order to develop geothermal energy at the China Lake Naval Weapons Center, Coso Hot Springs, China Lake, California. Collectively, the projects undertaken by these partnerships and joint ventures are referred to as the Coso Project. The Company is the operator and holds interests between 46.4% and 50% in the partnerships and joint ventures after payout. Payout is achieved when a joint venture has returned the initial capital of the joint venturers. In addition, the Company is exploring geothermal resources in the Cascade Mountains of Northern California, Washington and Oregon (the Cascades). In February 1990, the Company signed a letter of intent to acquire an interest in power plants and steam fields in Nevada and Utah (see Note 15 – subsequent events).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation:

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, and its proportionate share of the joint ventures in which it has invested. All significant inter-enterprise transactions and accounts have been eliminated.

Exploration and Development Costs:

The Company follows the full cost method of accounting for costs incurred in connection with the exploration and development of geothermal resources. All such costs, which include dry hole costs and the cost of drilling and equipping production wells, as well as directly attributable administrative and interest costs, are capitalized and amortized over their estimated useful lives when production commences. The estimated useful lives of production wells are ten years each; exploration costs and development costs, other than production wells, are generally amortized over the lives of the leases.

Deferred Well and Rework Costs:

Well rework costs are deferred and amortized over the estimated period between reworks. These deferred costs of $274 at December 31, 1989 are included in other assets. Currently, both production and injection well reworks are amortized over twelve months.

Fixed Assets and Depreciation:

The cost of major additions and betterments are capitalized, while replacements, maintenance and repairs that do not improve or extend the life of the respective assets are expensed currently.

Depreciation of the operating power plants is computed on the straight-line method over their estimated useful lives. During 1989, two of the turbines were subject to warranty inspections as required by the turbine manufacturers' five-year warranty. As a result of the inspections and operating experience to date, the Company and the turbine manufacturer have agreed that the periods between future inspections will be revised from two years to three years. As a result of this revision, the Company undertook a study of the estimated useful life of its power plants and, accordingly, has revised the composite rate of depreciation of the power plants to 2.67% per annum from 3.33% per annum. The effect of the change was to increase income before income taxes, net income and earnings per share by approximately $900, $715 and 2.7 cents, respectively.

Depreciation of furniture, fixtures, and equipment, which are recorded at cost, is computed on the straight-line method over the estimated useful lives of the related assets, which range from three to ten years.

Capitalization of Interest:

Prior to the commencement of operations, interest is capitalized on the costs of the plants and geothermal exploration and development to the extent incurred. Interest capitalized for the years ended December 31, 1989 and 1988 and for the eleven months ended December 31, 1987, was approximately $12,745, $6,089 and $494, respectively.

Deferred Financing Costs:

Deferred financing costs are amortized over the term of the related financing. Loan fees are amortized using the implicit interest method; other deferred financial costs are amortized using the straight-line method. Capitalized interest and other deferred charges are amortized over the life of the related assets. Accumulated amortization at December 31, 1989 and 1988 was approximately $1,112 and $474, respectively.

Management Fee and Interest Revenue Recognition:

The Company charges the joint ventures management fees, operator fees and interest on outstanding advances. Recognition of fees and interest relating to joint ventures in which the Company has invested is deferred until each joint venture commences operations (for fees and interest related to resource development) and with concurrent funding (for fees and interest related to the power plants). Revenue previously deferred is amortized over the lives of the related assets of the joint ventures as each joint venture becomes operational.

Deferred Income Taxes:

The Company computes and records income taxes currently payable based on taxable income which differs from pretax accounting income. The differences arise when certain transactions are included in financial statements in years different from those in which they are reported for income tax purposes. The tax effect of these timing differences is included in the provision for income taxes. Investment and energy tax

credits are reflected as a reduction of income tax expense using the flow-through method.

Net Income (Loss) Per Share:

Earnings per common share are based on the weighted average number of shares outstanding during the period plus equivalent shares which would result from exercise of options and warrants using the treasury stock method. Equivalent shares were excluded from the calculation for the year ended December 31, 1988 and for the eleven months ended December 31, 1987 because they would have been antidilutive.

Cash Flows:

The statement of cash flows does not include the noncash activities relating to interest added to the principal of the Senior Notes and capitalized as part of the exploration and development costs of $3,930 and $1,800 in the years ended December 31, 1989 and 1988, respectively, nor the capitalization of depreciation of equipment and amortization of deferred charges within exploration and development costs of $468, $423, and $150 for the years ended December 31, 1989 and 1988, and for the eleven months ended December 31, 1987, respectively.

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Restricted cash is not considered a cash equivalent.

Change in Fiscal Year:

Effective January 1, 1987, the Company changed its fiscal year-end from January 31 to December 31.

3. GEOTHERMAL POWER PLANT AND DEVELOPMENT COSTS:

Geothermal power plant and development costs comprise the following:

	December 31, 1989	1988
Coso Project:		
Power plants	$146,778	$ 70,983
Exploration and development costs	58,344	31,405
Total	205,122	102,388
Less accumulated depreciation and amortization	9,325	2,967
Net operating facilities	195,797	99,421
Construction in progress:		
Power plants	66,850	46,433
Exploration and development costs	28,341	27,992
Total Coso Project	290,988	173,846
Cascades geothermal exploration costs	13,309	9,257
Total	$304,297	$183,103

Operating Facilities:

The operating facilities comprise the Company's proportionate share of the assets of two of its joint ventures, Coso Finance Partners (CFP) and Coso Energy Developers (CED).

Navy I Plant:

The first turbine of CFP commenced delivery of firm power on August 19, 1987, and the second and third turbines of CFP commenced delivery of firm power on December 20, 1988. The facility (Navy I) is located on land owned by the U.S. Navy. Under the terms of the joint venture, profits and losses are allocated 46.4% to the Company after payout.

BLM Plant:

The BLM plant consists of two turbines at one site (BLM East), which commenced delivery of firm power on March 12 and May 23, 1989, respectively, and one turbine at another site (BLM West) which commenced delivery of firm power on August 17, 1989. Under the terms of CED's joint venture agreement, the Company's share of profits and losses before and after payout is approximately 40% and 48%, respectively, for the net 70MWe facility which is on lands leased from the U.S. Bureau of Land Management (the BLM plant). The lands are leased under a geothermal lease agreement that extends until October 31, 2035. The lease may be extended to 2075 at the option of the BLM.

Construction in Progress:

Navy II Plant:

The power plant under construction and exploration and development costs comprise the Company's proportionate share of the assets of another of the Company's joint ventures, Coso Power Developers (CPD). CPD is developing a further 80MWe power plant (Navy II) on the southern portion of the Navy lands. All three turbines synchronized in December 1989 and two turbines commenced firm power testing in January 1990. The third turbine is expected to commence firm power testing shortly. All profits and losses and capital contributions for Navy II are divided equally.

Cascades Geothermal Exploration Costs:

In the Cascades, the Company has acquired leasehold rights and has performed certain geological evaluations to determine the resource potential of the underlying properties. Recovery of these costs is ultimately dependent upon the Company's ability to prove geothermal reserves and sell geothermal steam, or to build power plants, obtain financing, gain access to high voltage transmission lines, and to sell the resultant electricity at favorable prices or, to sell its leaseholds. However, in the opinion of management, the Company will be able to realize its exploration costs through the generation of electricity for sale. Capitalized costs will be amortized when projects commence.

Significant Customers:

All of the Company's sales of electricity from the Coso facility are to Southern California Edison (SCE) and are under long-term power purchase contracts. Under the terms of these contracts, SCE pays firm prices for the energy portion of the contract, which escalate pursuant to the contracts at an average rate of 7.8% per year for the delivery of electricity for ten years, commencing with the initial delivery of electricity at firm power; thereafter, the energy payment adjusts to the actual avoided energy cost experienced by SCE at that time.

The capacity payment, which initially represents approximately 25% of the Company's revenue, remains fixed during the entire period of the contract. In addition, the Company is eligible for bonus payments based on the amount by which the actual output exceeds the contract capacity of each power plant. Bonus payments aggregated $1,074, $225 and $68 in the years ended December 31, 1989 and 1988 and in the eleven months ended December 31, 1987.

The Company has three contracts for terms of 20, 24, and 30 years, expiring in 2010, 2011, and 2019, respectively. Delivery of electricity by CFP, CED and CPD commenced under those contracts in 1987, 1989, and 1990, respectively.

Royalties:

Royalties comprise the following:

	1989	1988	1987
Navy I, Unit 1	1,679	1,567	510
Navy I, Units 2 & 3	739	22	–
BLM	693	–	–
Construction contractor	–	394	388
	$3,111	$1,983	$898

The amount to be paid by the Company to the U.S. Navy to develop geothermal energy for Navy I, Unit 1 on the lands owned by the Navy comprises (1) a fee payable during the term of the contract based on the difference between the amounts paid by the Navy to SCE for specified quantities of electricity and the price as determined under the contract (which currently approximates 65% of that paid by the Navy to SCE), and (2) $11,600 payable in December 2009, the initial expiration date of the Navy contract. The Navy has the option to extend the contract to 2019. The $11,600 payment is secured by funds placed on deposit monthly, which funds, plus accrued interest, will aggregate $11,600. The monthly deposit is currently $12. As of December 31, 1989, the balance of funds deposited approximated $362, which amount is included in restricted cash and accrued liabilities.

The Navy I (Units 2 and 3) and Navy II power plants are on Navy lands, on which the Navy will receive a royalty based on electric sales revenue at the initial rate of 4% escalating to 22% by the end of the contract in December 2019. The BLM is paid a royalty of 10% of the value of steam produced by the geothermal resource supplying the BLM plant.

The construction contractor's royalty interest was purchased by the Company in July 1988.

4. EQUIPMENT:

Equipment is stated at cost, net of accumulated depreciation of $1,425 and $710 as of December 31, 1989 and 1988, respectively.

5. SHORT-TERM BANK LOAN:

On August 3, 1989, the Company entered into a $15,000 multi-year Credit Agreement with Credit Suisse and two other participating banks which replaced the then existing unsecured lines of credit. Under the terms of the agreement, the Company may draw funds under a one-year revolving line of credit, with interest payable, at the Company's option, based on the Federal Funds rate plus 1%, Euro Dollar rate plus 1%, or Base rate plus 5/8%. At the end of the revolving period, the revolving loan can be extended for another year or converted into a two-year term loan, with interest payable, at the Company's option, based on either Euro Dollar rate plus 1.5% or Base rate plus 1%.

There were no lines of credit prior to 1988.

6. PRODUCTION PAYMENTS:

In 1987, the Company entered into a production payment agreement whereby $1,624 was funded towards the cost of drilling wells. Under the terms of the agreement, the Company was obligated to pay up to 7.0% (after return of capital) of the net cash flow (as defined in the agreement) from Navy I, Unit 1. In September 1989, the Company converted the production payment into a note payable which is included in other accrued liabilities. Under the terms of the note, the Company will pay an aggregate of $2,962 interest and principal. Payments will be in varying amounts through January 1993.

7. PROJECT FINANCE LOANS:

Project finance loans, which are non-recourse to the Company, comprise the following:

	December 31, 1989	1988
Term loans:		
Navy I bank term loans with interest at LIBOR (8.75% at December 31, 1989) plus 1.45%, due 1997 and 1998	$ 67,976	$ 29,232
Navy I bank term loan with interest at LIBOR plus 3%, due 1998	8,352	8,352
BLM resource development term loan with interest at LIBOR plus 1.5% plus 1.4% of cash flow (as defined), due 1999	7,200	7,200
Navy II resource development term loan with interest at LIBOR plus 1.5% plus 1.65% of cash flow (as defined), due 1999	10,000	–
	93,528	44,784
Construction loans:		
Navy I bank construction loan with interest at LIBOR plus 1.25%, converting into term loan with interest at LIBOR plus 1.45%, due 1998	–	33,454
BLM bank construction loan with interest at LIBOR plus 1.45% converting into term loan with interest at LIBOR plus 1.45%, due 1999	70,512	42,144
Navy II bank construction loan with interest at LIBOR plus 1.25%, due 1999, converting into a term loan with interest at LIBOR plus 1.45% due 1999	60,350	–
	130,862	75,598
	$224,390	$120,382

The loans are collateralized by the power plants, the geothermal resources and cash placed on deposit and are subject

to certain financial and geothermal reserve covenants and require, inter alia, that all revenues be deposited into and disbursed from a project control account with Credit Suisse, that cash reserves in special cash accounts be maintained for well replacement and contingencies, that certain restrictions be placed on the sale of assets, and that the Company maintain 125% of the geothermal resources necessary to operate the plant at full capacity. The Company has entered into loan agreements with Credit Suisse to finance drilling and construction of the BLM and Navy II turbines. This financing aggregates approximately $142,100, of which $128,462 has been drawn down as of December 31, 1989. These loans convert into ten-year term loans upon completion of construction.

Assuming the draw-down of the remaining $13,638 of the construction loans and conversion into term loans, the annual maturities of project debt financing for the five years beginning January 1, 1990 will be as follows:

1990	$ 16,248
1991	18,952
1992	20,868
1993	23,996
1994	26,172
Thereafter	131,792
	$238,028

8. SENIOR NOTES:

In March 1988, the Company issued $30,000 principal amount of 12% Senior Notes with Additional Contingent Interest (the Senior Notes). The Senior Notes, the principal of which is due in March 1995, bear interest at the rate of 12% per annum, plus 10% of the Company's share of the cash flow from the Coso Project, commencing July 1, 1989 and terminating December 31, 1994. In accordance with the terms of the loan agreement, interest payments aggregating approximately $5,730 have been added to the principal balance, as of December 31, 1989.

The Senior Notes prohibit the payment of cash dividends unless the Coso Project has been completed, the Company has a net worth of at least $50,000 after payment of such dividends, and dividends do not exceed 50% of accumulated net income subsequent to December 31, 1987. The Senior Notes also place restrictions on capital expenditures not related to the Coso Project.

9. SUBORDINATED CONVERTIBLE DEBENTURES:

At December 31, 1988, $1,814 of 10% subordinated convertible debentures were outstanding. On January 10, 1989, the Company called the debentures for redemption. All of the debenture holders elected to convert their debentures into an aggregate of 589,538 shares of the Company's common stock at the conversion rate of $3.08 per share, as set forth in the debenture agreement.

10. RELATED PARTY TRANSACTIONS:

The Company charges a management fee and interest on advances to its joint ventures, which aggregated approximately $4,906, $2,715, and $727, in the years ended December 31, 1989, and 1988, and the eleven months ended December 31, 1987. The Company recognized $4,374, $1,141 and $166 of these management fees and interest in the years ended December 31, 1989 and 1988 and the eleven months ended December 31, 1987, which amounts are included in other income. The balance is deferred and amortized over the lives of the related assets of the joint ventures.

11. INCOME TAXES:

The provision for income taxes for the year ended December 31, 1989 comprised the following:

Deferred:	
Federal	$1,631
State	1,084
	$2,715

As a result of incurring losses, the Company did not record a provision for income taxes prior to 1989. The Company has not paid any income taxes to federal or state authorities during the years ended December 31, 1989 and 1988 and the eleven months ended December 31, 1987.

A reconciliation of the federal statutory tax rate to the effective tax rate applicable to income before provision for income taxes follows:

Federal statutory rate	34.00%
Percentage depletion in excess of cost depletion	(5.70)
Investment and energy tax credits	(12.91)
State taxes, net of federal tax effect	5.63
Other	(0.21)
	20.81%

As of December 31, 1989, the Company has an unused net operating loss carryover of approximately $80,000 for federal tax return purposes and $5,000 for state tax return purposes. Tax operating losses expire between the years 1995 and 2005. Timing differences relate primarily to the fees and interest earned from the joint ventures in which the company has invested, certain intangible drilling and other project costs expensed for federal income tax purposes and differences in the computation of depreciation and amortization of the power plants and exploration and development costs for financial reporting and income tax purposes. In addition, the company has unused investment and geothermal energy tax credits of approximately $21,000 and $32,000, respectively, both expiring between 2003 and 2005.

In December 1987, the Financial Accounting Standards Board (FASB) adopted FAS 96, Accounting for Income Taxes. In 1989, the FASB issued FAS 103, which the Company adopted, which defers the effective date of FAS 96 until 1992. Because of the complexity of the required changes and uncertainty regarding the accounting for deferred taxes required by FAS 96, the Company has not yet determined the effects that the adoption of FAS 96 will have on the financial statements of the Company.

12. COMMITMENTS:

The Company leases its office space under a lease that

expires on April 30, 1994. The Company has the option to extend the lease for five years. Annual rentals under the office lease are approximately $650. The Company also leases an aircraft under a lease that expires on August 1, 1995, at an annual rental of approximately $464. Rental expense for the office, aircraft, other equipment and geothermal leases for the years ended December 31, 1989 and 1988, and the eleven months ended December 31, 1987 was approximately $2,294, $1,049, and $569, respectively.

The Company has acquired federal and state geothermal leases. In order to maintain the leases, the Company must pay annual rental fees. For 1990, the minimum rental fees aggregate approximately $197. Consistent with prior periods, these costs will be capitalized as resource costs prior to commencement of production.

13. PREFERRED SHARE PURCHASE RIGHTS:

On December 1, 1988, the Company distributed a dividend of one Preferred Share Purchase Right (Right) for each outstanding share of common stock. The Rights are not exercisable until ten days after a person or group acquires, or has the right to acquire, beneficial ownership of 20% or more of the Company's common stock or announces a tender or exchange offer for 30% or more of the Company's common stock. Each Right entitles the holder to purchase one one-hundredth of a share of Series A Junior Preferred Stock for $52. The Rights may be redeemed by the Board of Directors up to ten days after an event triggering the distribution of certificates for the Rights. The Rights will expire, unless previously redeemed or exercised, on November 30, 1998. At December 31, 1989, there were 19,957,302 Rights outstanding.

14. STOCK OPTIONS AND WARRANTS:

The Company has issued various stock options and warrants. As of December 31, 1989, a total of 6,070,355 shares are reserved for stock options and warrants, of which 5,960,215 have been granted and remain outstanding at prices of $2.13 to $12.98 per share as follows:

Stock Options:

The Company has a stock option plan (the 1986 Plan) under which 2,824,175 shares were reserved for a grant as incentive or nonqualified stock options, as determined by the Board of Directors. In May 1988, the shareholders approved an increase of 405,600 shares to 3,229,775 shares reserved, of which 3,119,635 had been granted as of December 31, 1989. Options are all issued at fair market value at the date of grant. Options granted under the 1986 Plan become exercisable over a period of three to five years and expire if not exercised within ten years from the date of grant. Prior to the 1986 Plan, the Company granted 204,290 options, which were granted at fair market value at date of grant, had terms of ten years, and were exercisable at date of grant. In addition, the Company had issued 132,796 options to consultants on terms similar to those issued under the 1986 Plan.

Transactions in stock options are as follows:

	Shares Available for Grant Under 1986 Option Plan	Options Outstanding		
		Shares	Option Price Per Share	Total
Balance, January 31, 1987	743,915	662,150	$3.12 - $4.19	$ 2,600
New shares reserved	1,622,400	–		–
Options granted	(1,468,272)	1,468,272	$3.12 - $4.93	4,726
Options terminated	1,199	(1,199)	$4.19	(5)
Balance, December 31, 1987	899,242	2,129,223	$3.12 - $4.93	7,321
New shares reserved	405,600	–		–
Options granted	(1,317,473)	1,317,473	$3.12 - $8.09	5,350
Options terminated	47,829	(47,829)	$3.12 - $4.93	(214)
Options withdrawn from 1986 Plan	132,796	–	$3.12 - $3.89	–
Balance, December 31, 1988	167,994	3,398,867	$3.12 - $8.09	12,457
Options granted	(116,080)	116,080	$7.88 - $12.98	1,178
Options terminated	58,226	(58,226)	$3.12 - $10.10	(253)
Options exercised	–	(93,501)	$3.12 - $3.89	(355)
Balance, December 31, 1989	110,140	3,363,220	$3.12 - $12.98	$ 13,027
Options which became exercisable during:				
Year ended December 31, 1989		417,007	$3.12 - $12.98	$ 1,569
Year ended December 31, 1988		933,204	$3.12 - $8.09	$ 3,411
Eleven months ended December 31, 1987		372,217	$3.12 - $4.93	$ 1,203
Options exercisable at:				
December 31, 1989		2,282,453	$3.12 - $12.98	$ 8,354
December 31, 1988		1,865,446	$3.12 - $8.09	$ 6,785
December 31, 1987		932,242	$3.12 - $4.93	$ 3,374

The remainder becomes exercisable over the next three to five years.
The Company has made no charges to operations in connection with these plans.

Warrants:

The Company has granted warrants in connection with various financing activities to purchase shares of common stock as follows:

	Warrants Outstanding		
		Option Price	
	Shares	Per Share	Total
Balance, January 31, 1987	3,888,437	$2.13 - $3.96	$ 9,031
Warrants granted	350,695	$2.47 - $6.93	2,242
Balance, December 31, 1987	4,239,132	$2.13 - $6.93	11,273
Warrants exercised	(274,846)	$2.13 - $3.96	(608)
Balance, December 31, 1988	3,964,286	$2.13 - $6.93	10,665
Warrants exercised	(1,367,291)	$2.13 - $3.96	(3,542)
Balance, December 31, 1989	2,596,995	$2.13 - $6.93	$ 7,123

The warrants are exercisable immediately and expire in 1991 and 1992.

Stock Split and Dividends:

In November 1988, the Company declared a 4% stock dividend; in January 1989, the Company declared a 3-for-2 stock split in the from of a stock dividend; and, in December 1989, the Company declared a second 4% stock dividend. All share amounts herein give effect to the stock split, and the stock dividends.

15. SUBSEQUENT EVENTS:

In February 1990, the Company signed a letter of intent with Chevron Resources Company (Chevron) to acquire approximately 84,000 acres of geothermal lands, including Chevron's 100% interest in a 9MWe power plant at Desert Peak, Nevada; 50% interest in a 16.6MWe power plant at Beowawe, Nevada and 70% interest in a steam field supplying a 25MWe power plant owned by Utah Power & Light. The Company believes that there are significant geothermal resources underlying these projects. The Company expects to finance the acquisition with a combination of equity and debt.

16. QUARTERLY FINANCIAL DATA (UNAUDITED):

Following is a summary of the Company's quarterly results of operations for the years ended December 31, 1989 and 1988.

During the six months ended June 30, 1989, the Company's estimated effective tax rate was 18%. During the three months ended September 30, 1989, the estimated effective tax rate was adjusted to 21%, due to limitations on the amount of investment tax credits which may be utilized for financial statement purposes and limitations in the amount of percentage depletion available for state tax purposes. As a result of curtailments in the three months ended December 31, 1989 (the fourth quarter) which reduced the depletion limitation and increased the depletion deduction, the effective tax rate was adjusted to 20.8% in the fourth quarter. Furthermore, as referred to in Note 2, the Company revised the depreciation rates in the fourth quarter, retroactive to January 1, 1989.

Had the depreciation rates and tax rates been constant during the entire year, earnings per share would have been increased by $0.02 in the three months ended September 30, 1989 and reduced by a similar amount in the fourth quarter.

	Three Months Ended				Year Ended
	March 31, 1989	June 30, 1989	September 30, 1989	December 31, 1989	December 31, 1989
Revenue:					
Sales of electricity	$6,403	$10,165	$16,960	$ 9,482	$43,010
Other income	1,222	1,200	1,074	1,465	4,961
Total revenue	7,625	11,365	18,034	10,947	47,971
Total costs and expenses	5,577	8,280	11,099	9,964	34,920
Income before provision for taxes	2,048	3,085	6,935	983	13,051
Provision for taxes	369	555	1,610	181	2,715
Net income	$1,679	$ 2,530	$ 5,325	$ 802	$10,336
Earnings per share	$ 0.07	$ 0.10	$ 0.20	$ 0.03	$ 0.40

	Three Months Ended				Year Ended
	March 31, 1988	June 30, 1988	September 30, 1988	December 31, 1988	December 31, 1988
Revenue:					
Sales of electricity	$2,060	$ 2,188	$ 3,701	$ 2,724	$10,673
Other income	240	449	352	804	1,845
Total revenue	2,300	2,637	4,053	3,528	12,518
Total costs and expenses	2,755	3,315	3,292	3,414	12,776
Net income (loss)	$ (455)	$ (678)	$ 761	$ 114	$ (258)
Earnings (loss) per share	$(0.02)	$ (0.03)	$ 0.03	$ 0.01	$ (0.01)

STATEMENT OF MANAGEMENT RESPONSIBILITY

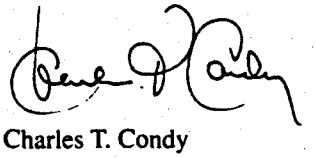
The management of California Energy Company, Inc. (the Company) is responsible for the integrity of the financial statements of the Company and its subsidiaries. This responsibility involves preparation of financial statements in accordance with generally accepted accounting principles, and reporting data which objectively reflect the assets, liabilities, revenues, and expenses of the Company and its subsidiaries.

In accumulating and controlling its financial data, the Company establishes and maintains accounting systems designed to ensure adequate internal controls. Management believes a high level of internal control is maintained by the selection and continual training of qualified personnel and by the establishment and communication of accounting and business policies. In establishing internal controls management evaluates the cost of such systems against the benefits received. Management believes the internal control systems in use are adequate to prevent significant misuse of Company assets or misstatement of financial reports.

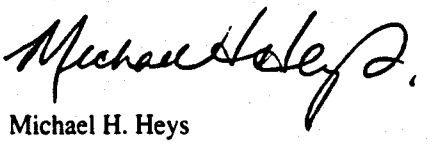
Coopers & Lybrand, independent accountants, are engaged to render an opinion on the consolidated financial statements. Their opinion expresses an informed judgment on whether management's financial statements, considered in their entirety, present fairly, in conformity with generallly accepted accounting principles, the Company's financial condition and operating results. It is based on procedures described in the second paragraph of their report, which include obtaining an understanding of the Company's system and procedures and performing tests and other procedures sufficient to provide reasonable assurance that the financial statements are neither materially misleading nor contain material errors. The auditors make tests of Company procedures. It is neither practical nor necessary for them to scrutinize a large portion of the Company's transactions.

The Board of Directors, through its Audit Committee consisting of three independent directors, is responsible for engaging the independent accountants and assuring that management fulfills its responsibilities in the preparation of the financial statements. The Audit Committee discusses audit and financial reporting matters with both management and Coopers & Lybrand. To ensure complete independence, Coopers & Lybrand meets with the Audit Commitee with and without the presense of management representatives.

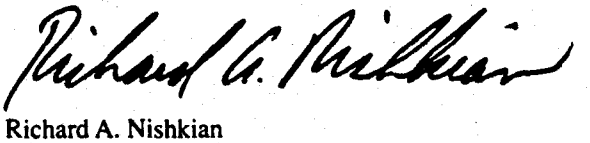
With the established system of internal accounting controls and the independent review by Coopers & Lybrand, the integrity and objectivity of the Company's financial statements are maintained.



Charles T. Condy
Chairman and Chief Executive Officer



Michael H. Heys
President and Chief Operating Officer



Richard A. Nishkian
Senior Vice President and Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors and Stockholders of California Energy Company, Inc.:

We have audited the accompanying consolidated balance sheets of California Energy Company, Inc., as of December 31,1989 and 1988, and the related consolidated statements of operations, stockholders' equity, and cash flows for the years ended December 31, 1989 and 1988 and for the eleven months ended December 31, 1987. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of California Energy Company, Inc. as of December 31, 1989 and 1988, and the consolidated results of their operations, stockholders' equity, and cash flows for the years ended December 31, 1989 and 1988 and for the eleven months ended December 31, 1987, in conformity with generally accepted accounting principles.

San Francisco, California
February 16, 1990

Coopers & Lybrand

Coopers & Lybrand

Market for Registrant's Common Equity and Related Stockholders Matters

The Company's Common Stock is traded on the American Stock Exchange, using the symbol CE. The Company's Common Stock is also listed on the International Stock Exchange of the United Kingdom and the Republic of Ireland and the Pacific Stock Exchange.

The following table sets forth, for the calendar periods indicated, the high and low closing sales prices of the Company's Common Stock as reported by the American Stock Exchange after the Company's Common Stock was listed on this exchange on April 6, 1988. For the period March 12, 1987 to April 6, 1988, the table sets forth the high and low bid prices on the over-the-counter market as reported by the NASDAQ National Market System. These sales prices have been adjusted to reflect the 4% stock dividend paid on January 16, 1989 to holders of record of Common Stock on December 15, 1988, the 3-for-2 stock split (in the form of a stock dividend) payable on March 17, 1989 to holders of record of Common Stock on February 17, 1989, and for the 4% dividend paid on January 15, 1990 to holders of record of Common Stock on December 14, 1989.

Period	High	Low
1987		
March 12 – April 30	$5.77	$4.40
May 1 – July 31	$5.85	$4.33
August 1 – October 31	$4.88	$1.44
November 1 – December 31	$3.44	$1.76
1988		
January 1 – March 31	$5.37	$2.00
April 1 – June 30	$6.33	$4.57
July 1 – September 30	$8.01	$5.61
October 1 – December 31	$11.30	$7.05
1989		
January 1 – March 31	$16.51	$7.21
April 1 – June 30	$11.18	$8.41
July 1 – September 30	$13.25	$7.57
October 1 – December 31	$13.46	$9.25
1990		
January 1 – January 31	$13.62	$11.75

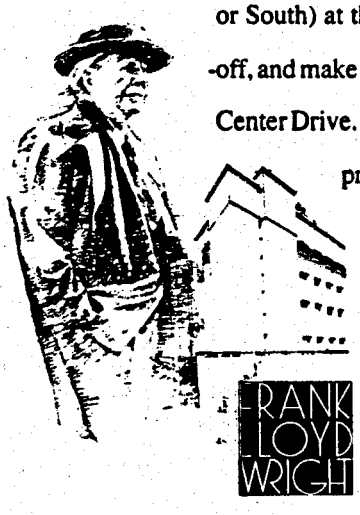
As of January 31, 1990, there were 1,158 stockholders of record of the Company's Common Stock.

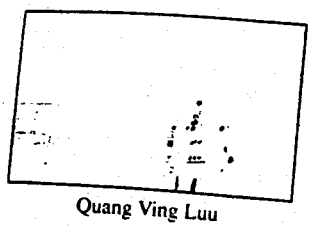
Annual Meeting of Shareholders

The Company's Annual Meeting of Shareholders will be held at 6:00 p.m., on Friday, April 6, 1990, in the Marin County Civic Center's Showcase Theatre, in San Rafael, California.

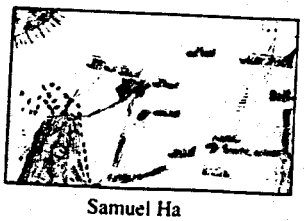
Immediately following, shareholders and friends of the Company are invited to enjoy the Frank Lloyd Wright exhibition, "In The Realm of Ideas." Acclaimed by audiences everywhere it has been shown, we think you will enjoy this display of the timeless achievements of "the father of modern architecture." A buffet supper will be served. Please confirm your attendance in writing or by telephone.

To find the meeting, exit U.S. Highway 101 (North or South) at the San Pedro Road turn-off, and make a left-hand turn on Civic Center Drive. San Rafael is located approximately 20 miles north of San Francisco.

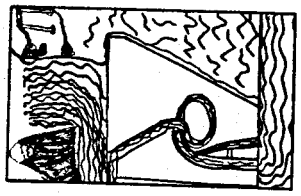




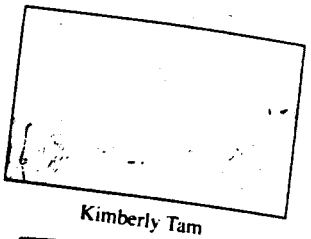
Quang Ving Luu



Samuel Ha



Marcell Willis



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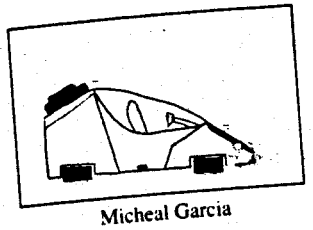

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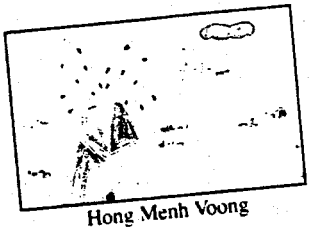

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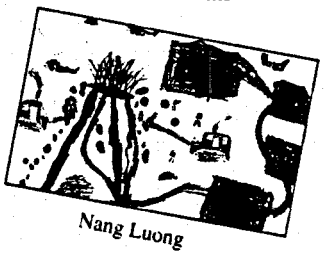

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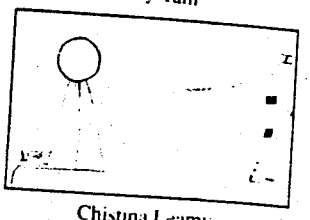

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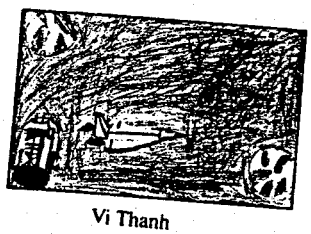


Vi Thanh

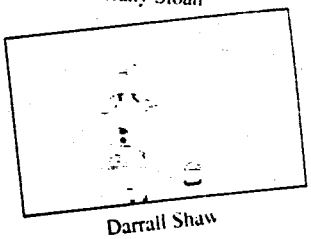
earth day 1990

Twenty years ago, 20 million Americans participated in Earth Day, marking the rise of the contemporary environmental movement. This massive outpouring of public concern resulted in a new Clean Air Act and legislation creating the Environmental Protection Agency.

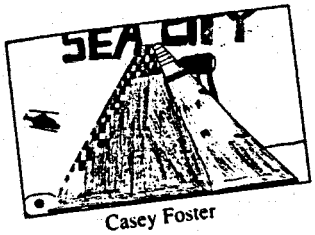
Progress has been made in some important areas but new environmental problems loom large around the world: global warming; acid rain; desertification; ocean pollution.

Earth Day 1990 is intended to educate people about the many measures they can employ – singularly or as a group – to help mitigate global environmental damage.

We encourage you to take part in Earth Day 1990. To find out more about the activities planned in your area, call or write the organizers at: Earth Day 1990, P.O. Box AA, Stanford University, Stanford, CA 94309. Telephone: (415) 321-1990.



Darrall Shaw



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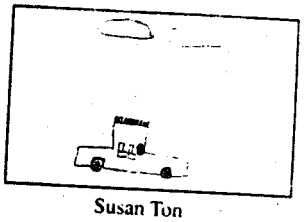

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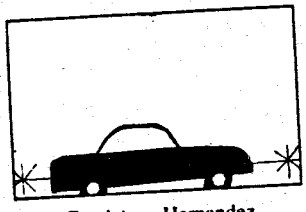

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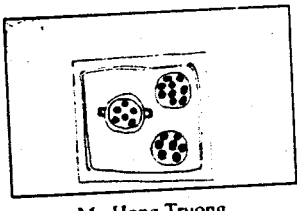

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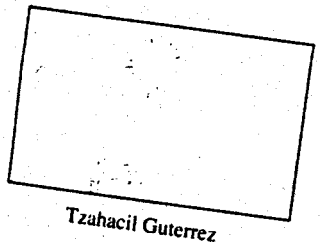

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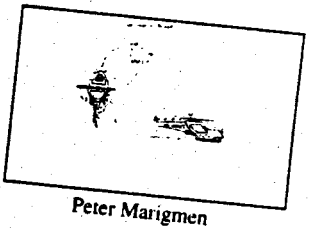

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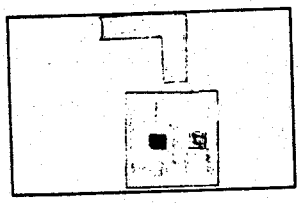
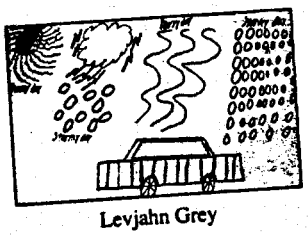


Devon Martin



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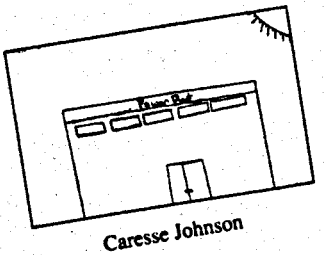

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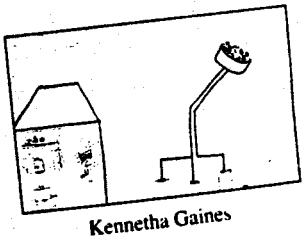
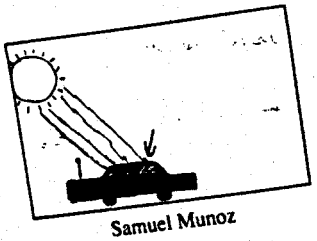


Kennetha Gaines



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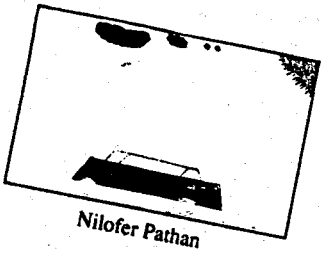

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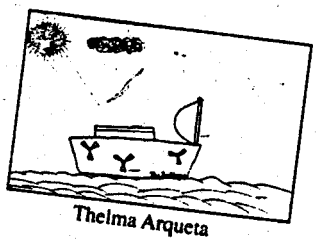

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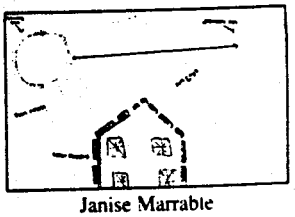

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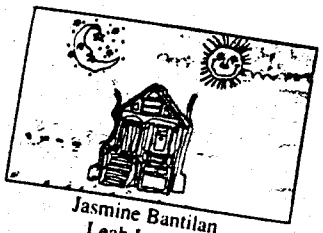

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Leah Leyton

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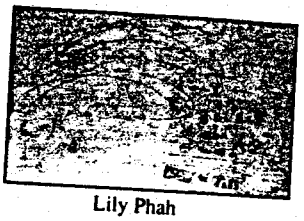

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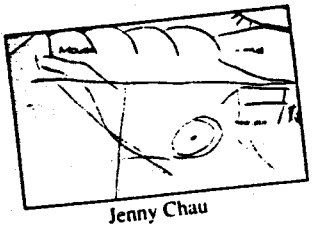

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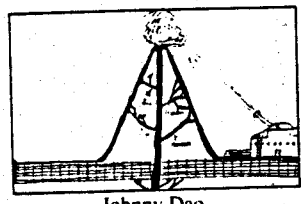

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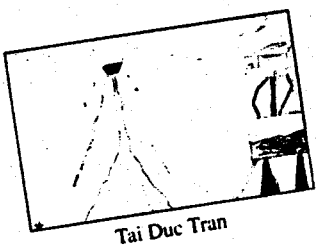

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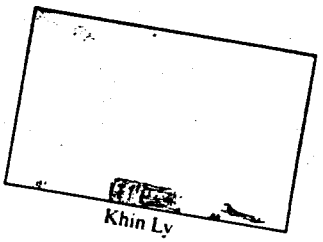

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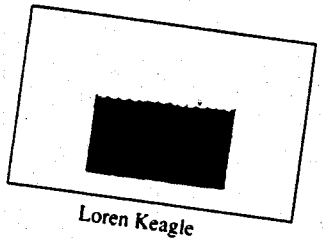

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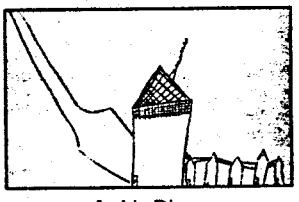

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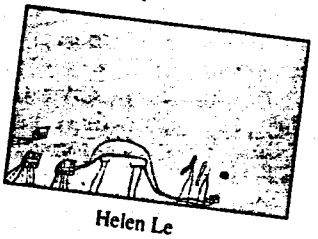

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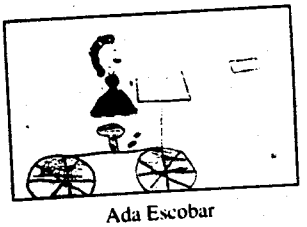

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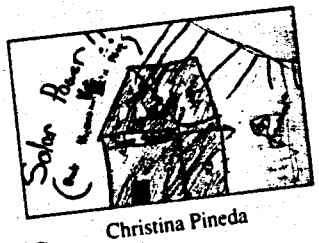

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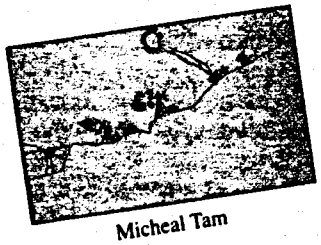

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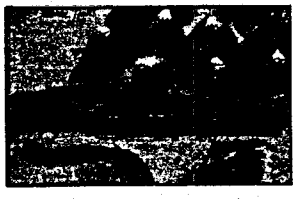

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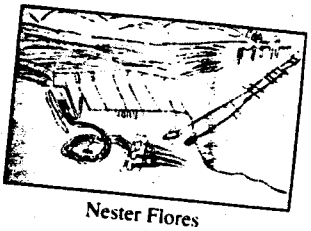

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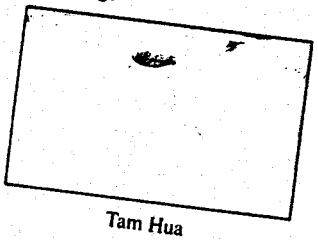

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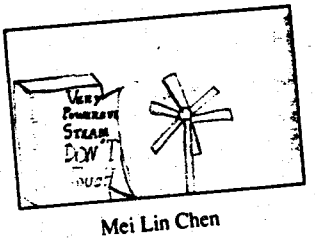

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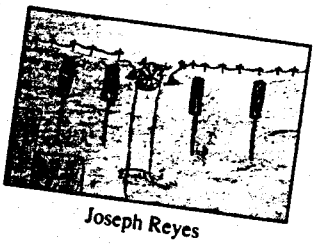

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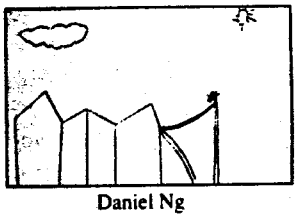

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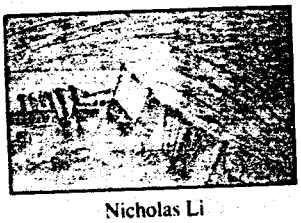

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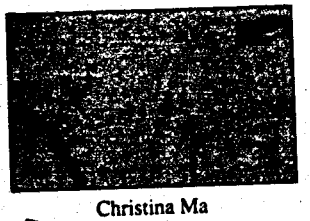

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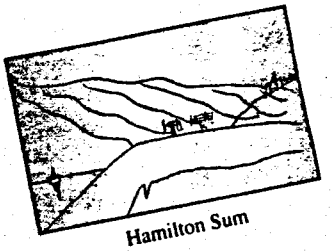

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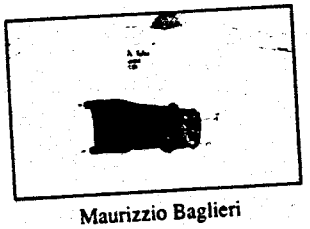

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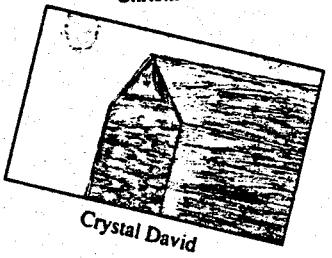

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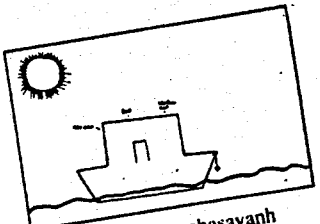

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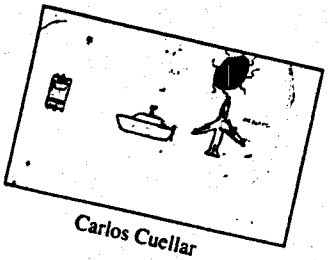

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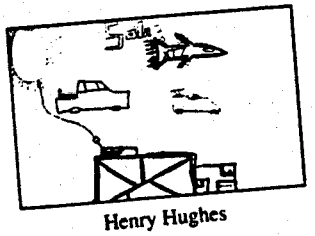

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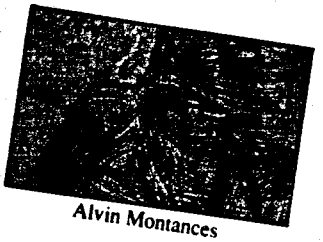
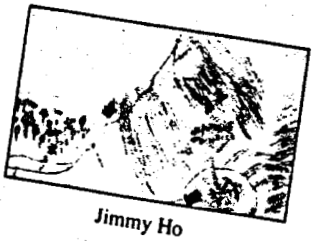


Alvin Montances

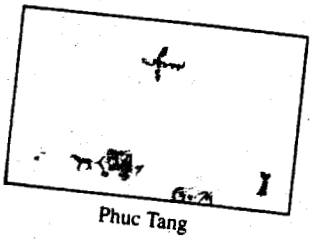
Quintera Simpson


Monica Lau


Jimmy Ho


Gregory Curry


Stephanie Asley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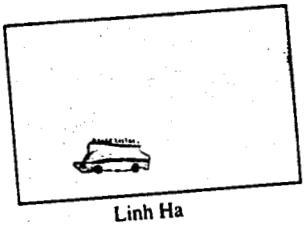
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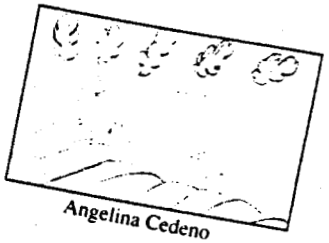
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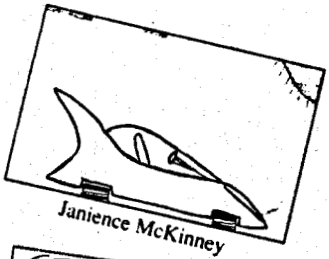
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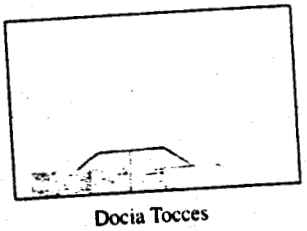
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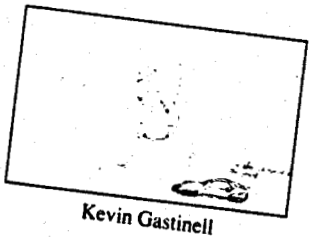
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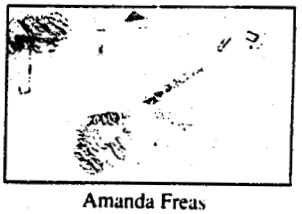
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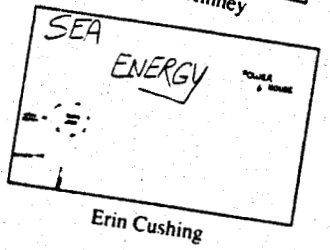

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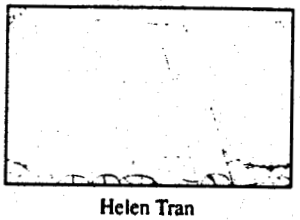
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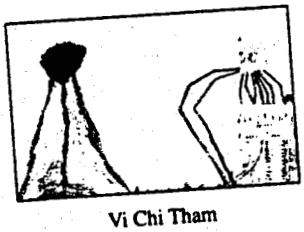
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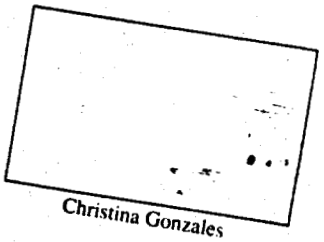
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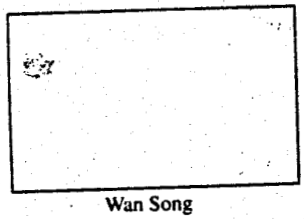
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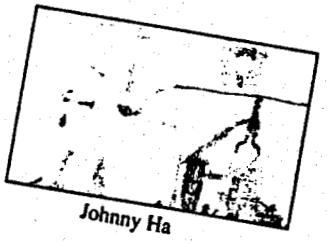
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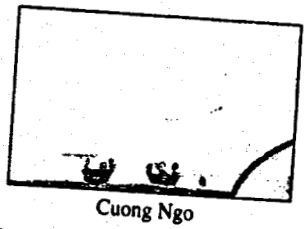
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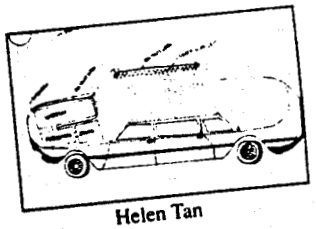
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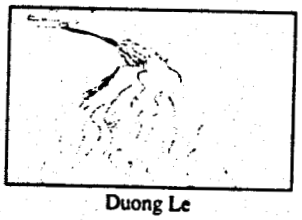
Duc Hoa Nim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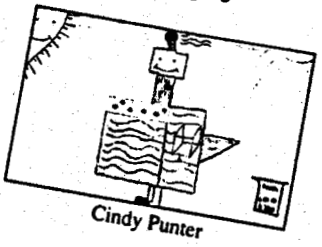
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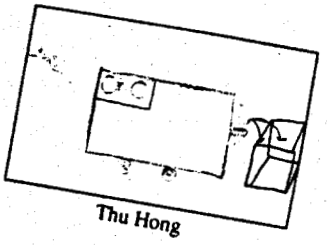
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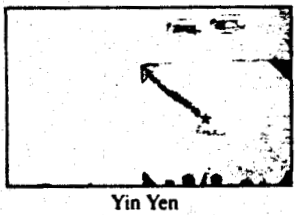
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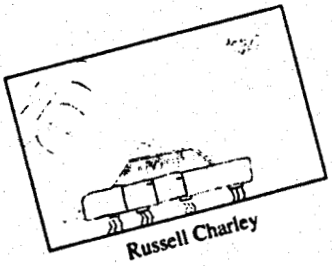
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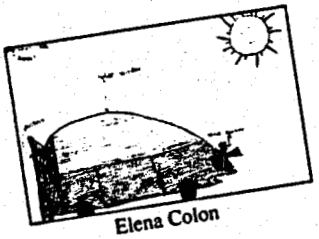
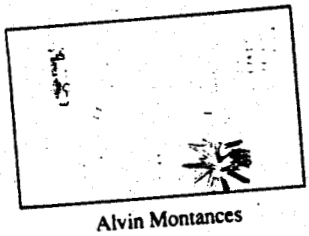

Elena Colon


Vicky Dip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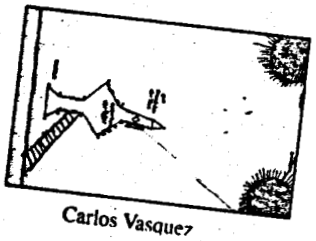
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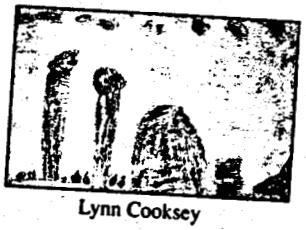
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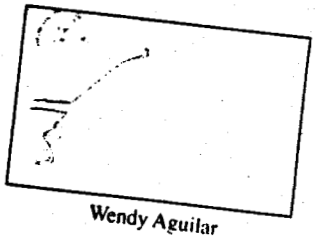
Wendy Aguilar

California Energy Company Board of Directors

BOARD OF DIRECTORS

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Chief Executive Officer
California Energy Company, Inc.

Harold H. Robinson III
Vice Chairman of the Board
California Energy Company, Inc.

Michael H. Heys
President and Chief Operating Officer
California Energy Company, Inc.

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President
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New York, NY

Herbert L. Oakes, Jr.[3]
President
Oakes, Fitzwilliams & Co., Ltd.,
Investment Bankers
London, England

Barton W. Shackelford[1,2,3]
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San Francisco, CA

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Managing Partner
Logicat Inc., Computer Software
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U.S.N., Retired
Chairman of the Board
Murphy & Demory, Ltd.
Washington, D.C.

Everett B. Laybourne
Of Counsel
Baker & McKenzie, Attorneys at Law
Los Angeles, CA

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Chief Executive Officer

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Chief Operating Officer

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Senior Vice President,
Chief Legal Officer

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Vice President, Plant Operations

Gary E. Lavering
Vice President, Marketing

James L. Moore
Vice President, Exploration

Richard E. Neumann
Vice President, Human
Resources and Administration

Mark J. Sisinyak
Vice President and General Manager,
Coso District

C.E. EXPLORATION COMPANY OFFICERS

Robert D. Tibbs
President and Chief Operating Officer

CORPORATE INFORMATION

Corporate Headquarters
California Energy Company, Inc.
601 California, Suite 900
San Francisco CA 94108
(415) 391-7700 FAX (415) 391-8989

Operating Offices
CE Exploration Company
Pioneer Tower
888 SW 5th Avenue, Suite 1150
Portland, OR 97204-2096
(503) 226-3636 FAX (503) 226-7695

Coso Junction
P.O. Box 1420
Inyokern, CA 93527
(619) 764-2551 FAX (619)764-2500

770 Lexington Avenue, 11th Floor
New York, NY 10021
(212) 888-9000 FAX (212) 755-3082

201 North Sunriver Plaza
Sunriver, Oregon 97702
(503) 593-2414

Transfer Agent and Registrar
Manufacturers Hanover Trust Company
of California
50 California Street, 10th Floor
San Francisco, CA 94111
(415) 954-9519 FAX (415) 989-5241

Auditors
Coopers & Lybrand
333 Market Street
San Francisco, CA 94105

Corporate Counsel
Baker & McKenzie
Citicorp Plaza, 36th Floor
725 So. Figueroa Street
Los Angeles, CA 90017

Stock Listing
American Stock Exchange
Symbol: CE

NASDAQ/Third Market System
Symbol: CE

International Stock Exchange
(London)
Symbol: CE

Pacific Stock Exchange
Symbol: CE

Form 10-K
The Company's Form 10-K is filed with the Securities and Exchange Commission and copies may be obtained from the Company. Copies of exhibits to that Form 10-K will be furnished upon payment of a fee equal to the Company's reasonable expenses in furnishing such exhibits. Please direct your written request to:
California Energy Company, Inc.
601 California Street, Suite 900
San Francisco, 94108
Attn: Chief Financial Officer

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1 – Member of Compensation Committee
2 – Member of Audit Committee
3 – Board Nominating Committee